MIRABANK A.D., BEOGRAD

Financial statements
for the year ended December 31, 2015
prepared in accordance with
International Financial Reporting Standards
with Independent Auditors' Report

CONTENT

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

TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS OF

MIRABANK A.D. BEOGRAD

Report on financial statements

We have audited the accompanying financial statements of Mirabank a.d. Beograd ("the Bank"), which comprise the balance sheet as at 31 December 2015, the income statement, statement of other comprehensive income, statement of changes in equity and 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 Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on 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 financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its 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 annual business report. Our responsibility is to express an opinion on consistency of the annual business report with the 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 annual business report is consistent with the financial statements.

Belgrade, 16 March 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, 16 March 2016 KPMG d.o.o. Beograd

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

(L.S.)

Dušan Tomić
Certified Auditor

TRANSLATION

MIRABANK A.D., BEOGRAD

Financial Statements as at December 31, 2015

MIRABANK A.D., BEOGRAD

CONTENTS

MIRABANK A.D., BEOGRAD **TRANSLATION**
INCOME STATEMENT
In the period February 5 – December 31, 2015
(In RSD thousand)

	Note	2015	2014
Interest income	4.1.18; 7a	9,425	-
Interest expenses	4.1.18; 7b	(596)	-
Net interest income		**8,829**	**-**
Fee and commission income	4.1.19; 8a	1,400	-
Fee and commission expenses	4.1.19; 8b	(1,106)	-
Net fee and commission income		**294**	**-**
Net income from exchange rate gains/losses and effects of agreed currency clause	4.1.1; 9	5,870	-
Other operating income		-	-
Net expenses from impairment of financial assets and credit risk-weighted off-balance sheet items	4.1.10, 10	-	-
Net income		**14,993**	-
Salaries, salary compensations and other personal expenses	11	(134,577)	-
Depreciation expense	4.1.6, 4.1.8; 12	(21,087)	-
Other expenses	13	(108,577)	-
LOSS BEFORE TAX		**(249,248)**	**-**
Deferred tax loss	4.1.12; 14	(11,910)	**-**
LOSS AFTER TAX	**14**	**(261,158)**	**-**

Notes presented in the following pages
are integral parts of this financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

STATEMENT ON OTHER COMPREHENSIVE INCOME
In the period 5 February – 31 December 2015
(In RSD thousand)

	2015.	2014.
GAIN/(LOSS) FOR THE PERIOD	**(261,158)**	-
Other result for the period		
Components of other result which may be reclassified to profit or loss:	-	-
Decrease in revaluation reserves for intangible assets and non-current assets	-	-
Total other comprehensive income for the period	-	-
TOTAL POSITIVE/(NEGATIVE) RESULT FOR THE PERIOD	**(261,158)**	-

Notes presented in the following pages
are integral part of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

BALANCE SHEET
As of December 31, 2015
(In RSD thousand)

	Note	2015	2014
ASSETS			
Cash and assets held with the central bank	4.1.2, 15	1,147,386	-
Loans and receivables from banks and other financial institutions	4.1.3, 16	201,783	-
Loans and receivables from clients	4.1.3, 17	510,161	-
Intangible assets	4.1.8, 18	217,825	-
Property, plant and equipment	4.1.6, 19	163,370	-
Other assets	20	8,202	-
Total assets		**2,248,727**	**-**
LIABILITIES			
Deposits and other liabilities to banks, other financial institutions and central bank	4.1.3.5, 4.1.3.6, 21	82	-
Deposits and other liabilities to other clients	4.1.3.5, 4.1.3.6, 22	76,939	-
Subordinated liabilities	23	608,130	-
Provisions	4.1.14, 4.1.15, 24	2,892	-
Deferred tax liabilities	4.1.12, 14	11,910	-
Other liabilities	25	19,232	-
Total liabilities		**719,185**	**-**
Equity			
Share capital	4.1.17, 26	1,790,700	-
Loss up to amount of equity	4.1.17, 26	(261,158)	-
Total equity		**1,529,542**	**-**
Total liabilities and equity		**2,248,727**	**-**

Notes presented in the following pages
are integral parts of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

STATEMENT OF CHANGES IN CAPITAL
In the period 5 February – 31 December, 2015
(In RSD thousand)

	Share capital	Issue premium	Reserves	Accumulated result	Total
Balance as of 1 January 2014	-	-	-	-	-
Balance as of 31 December 2014	**-**	**-**	**-**	**-**	**-**
Balance as of 1 January 2015	-	-	-	-	-
Share issue as of 5 February 2015	1,790,700	-	-	-	1,790,700
Current year loss	-	-	-	(261,158)	(261,158)
Balance as of 31 December 2015	**1,790,700**	**-**	**-**	**(261,158)**	**1,529,542**

Notes presented in the following pages
are integral part of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

CASH FLOW STATEMENT
In the period 5 February – 31 December 2015
(In RSD thousand)

	2015	2014
Cash flow from operating activities	**14,867**	**-**
Inflow from interest	9,425	-
Inflow from fees	5,442	-
Cash outflow from operating activities	**(220,595)**	**-**
Outflow from interest	(363)	-
Outflow from fees	(1,026)	-
Outflow from gross salaries, salary compensations and other personal expenses	(134,519)	-
Outflow from taxes, contributions and other duties charged to income	(83)	-
Outflow from other operating expenses	(84,604)	-
Net cash inflow/(outflow) from operating activities before an increase or decrease in lending and deposits	**(205,728)**	-
Net increase/(decrease) in loans and placements to banks and clients	(581,546)	-
Net increase/(decrease) in deposits from banks and clients	76,707	-
Net cash inflow/(outflow) from operating activities	**(710,567)**	**-**
Outflow from purchase of intangible assets and non-current assets	(408,909)	-
Net cash (outflow)/inflow from investing activities	**(408,909)**	**-**
Inflow from capital increases	1,790,700	-
(Outflow)/inflow from subordinated liabilities	608,314	-
Net cash (outflow)/inflow from financing activities	**2,399,014**	**-**
Net increase/decrease in cash and cash equivalents	**1,279,538**	**-**
Cash and cash equivalents at year beginning	**-**	**-**
Net exchange rate gains	(252)	-
Cash and cash equivalents at year end	**1,279,286**	**-**

Notes presented in the following pages
are integral part of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

1. Establishment and Operations of the Bank

Founder of the Mirabank a.d. Beograd (hereinafter: the Bank), Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, The Netherlands (hereinafter: the Founder), obtained the preliminary permit to incorporate the Bank with the Decision of the National Bank of Serbia No. IO NBS 32 dated August 18, 2014.

The National Bank of Serbia issued a Decision No. IO NBS 58 dated December 16, 2014, thus granting the operating license to the Bank.

Upon obtaining the approval from the National Bank of Serbia for the acts of the Founding Assembly of the Bank (the Decision on Appointment of the President and Members of the Board of Directors of the Bank, the Decision on Appointment of the President and Members of the Executive Board of the Bank, the Decision on the Adoption of the Articles of Association of the Bank, the Decision on the First Share Issue of the Bank, the Decision on the Adoption of the Strategy and Business Policy of the Bank), the Bank was registered with the Companies Registry based on the Decision of the Serbian Business Registers Agency BD 8779/2015 dated February 5, 2015.

The Founder of the Bank and the Bank are not members of the bank group. The initial capital of the Bank is EUR 15 million in RSD counter value; capital conversion was performed on April 6, 2015, upon opening of the Bank's account with the National Bank of Serbia, following which the Bank began conducting its operations through that account and payment transactions, and at the same time it initiated the reporting process to the National Bank of Serbia.

Pursuant to the Law on Banks, Decision on Incorporation and Articles of Association of the Bank, the Bank was registered to perform the following operations:

- Deposit activities, i.e., accepting and placing all types of cash deposits,
- Lending activities, i.e., granting and taking all types of loans,
- Foreign exchange, foreign currency operations and exchange transactions,
- Payment transactions,
- Payment cards' issuing,
- Activities regarding securities,
- Issuing sureties, guarantees, sureties on promissory notes and other types of warranties
- Purchase, sale and collection of receivables (factoring, forfeiting, etc.),
- Activities for which it is authorized in compliance with the Law,
- Providing other financial services.

Members of the Executive Board of the Bank as at 31 December 2015 are:
Ilinca Rosetti, Chairperson
Saša Micevic, Member

Members of the Board of Directors of the Bank as at 31 December 2015 are:
Majed Fuad Mohammad Odeh, President
Hesham Ahmed Monamed Elsayed Heikal, Member
Vladimir Radić, Member
Dejan Nikolić, Member
Danica Popović, Member

The target group of clients for the Bank comprise of legal entities, and no operations with the physical persons have been planned for the initial two years of operation.

The official seat of the Bank is in Belgrade, at 1 Španskih boraca Street in Novi Beograd, and its operations are conducted in 1 branch office in the territory of the Republic of Serbia at the same address. As at 31 December, 2015, the Bank had the workforce of 38 employees.

The Bank's Company registration number is 21080608. The Tax Identification Number assigned to the Bank is 108851504.

2. Basis for Preparation and Presentation of Financial Statements and Accounting Policy

The basis for preparation and basic accounting policies applied in preparation of individual financial statements are presented below.

The accounting policies were applied consistently to all the presented years, unless specified otherwise.

Compliance Statement

These financial statements (below: financial statements) of the Bank for the period from 05 February to 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS).

Financial statements of the Bank for period from 5 February (foundation date) to 31 December are the first financial statements.

The financial statements of the Bank have been prepared in accordance with the going concern, which implies that the Bank will continue to operate in the foreseeable future.

2.1. Basis for Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs in the Republic of Serbia are legally obliged to keep books of account, recognize and evaluate their assets and liabilities, revenues and expenditure, prepare, present, submit and disclose their financial statements in compliance with the Law on Accounting (hereinafter: the Law, published in the Official Gazette of the Republic of Serbia, No. 62/2013).

The Bank, as a large legal entity, is obliged to apply the International Financial Reporting Standards ("IFRS"), which, within the meaning of the said Law, include the following: Chart of Accounts for preparation and presentation of financial statements ("Chart") and the International Accounting Standards ("IAS"), The International Financial Reporting Standards ("IFRS") and relevant interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"), subsequent amendments to these standards and the related interpretations, as approved by the International Accounting Standards Board ("the Board"), the translation of which was determined and published by the Ministry in charge of finances. In addition, in accordance with the amendments to the Banking Act ("Off. Gazette of RS", no. 14/2015), the banks in the Republic of Serbia are obliged to in the preparation of annual financial statements apply IFRS, as well as subsequent amendments to standards and their related interpretation of the date of their issuance by the competent body.

Financial statements were prepared on the historical costs basis, unless specifically stated otherwise in the accounting policies presented below.

For preparation of the present financial statements, the accounting policies described in the Note 4 were applied by the Bank.

2.2. Published Standards and Interpretations in Force in the Current Period that have not yet been officially translated or adopted

In the current year, the Bank has changed the amendments to IFRS issued by the International Accounting Standards Board, whose application is mandatory for accounting periods beginning on or after January 1, 2015. The following standards and interpretations came into effect in the current accounting period:

- Amendments to IAS 19 - Employee Benefits - Defined benefit plans: contributions for employees (the means for annual periods beginning on or after 1 July 2014); Application of these amendments had no material impact on the disclosure of the amount recognized in the financial statements;

Annual Improvements to IFRSs 2010 -2012 Cycle, which resulted in Project of annual quality improvement of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with the objective to eliminate non-compliance and improve definitions (effective for annual periods beginning on or after 1 July 2014); Application of these amendments had no material impact on the disclosure of the amount recognized in the financial statements;

- Amendments to a number of standards and interpretations for period from 2011 until 2013, IFRS Improvement, are the result of the IFRS Annual Improvements of Quality Project (IFRS 1, IFRS 3, IFRS 13, IAS 40) primarily with the aim to correct conflicts and clarify wordings (most of these amendments shall be effective for annual periods beginning on or after 1 July 2011). Annual improvements for the period from 2011 to 2013, did not have a significant impact on the measurement and disclosure of the amount recognized in the financial statements of the Bank.

2.3. Published Standards and Interpretations that Are Not Effective

As at the date of these Financial Statements, the following standards, amendments and interpretations thereto were published, but not yet effective for the financial year ended 31 December 2015:

- IFRS 9 - "Financial Instruments" and subsequent amendments, which replaces the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", relating to the classification and measurement of financial assets. Standard eliminates the existing categories of IAS 39 - Assets held to maturity, available for sale and loans and advances. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted;

- Amendments to IFRS 11 "Joint Arrangements" - Accounting for the acquisition of interests in joint businesses (effective for annual periods beginning on or after 1 January 2016);

- IFRS 14 – Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016);

- IFRS 15 - "Income by agreement with the customer," which defines the framework for the recognition of revenue. IFRS 15 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC13 "Customer Loyalty Programmes", IFRIC15 "Agreements for the Construction of Real Estate" and IFRIC18 "Transfers of assets from customers". IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted;

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Interpretation acceptable depreciation method (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture - Industrial plants (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IAS 27 "Separate Financial Statements" - Equity method in the separate financial statements (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - The sale or transfer of funds between the investor and its associates or joint ventures - (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures" – appliance of change of Exemptions for the consolidated financial statements - (effective for annual periods beginning on or after 1 January 2016);

- Annual improvements for the period from 2012 to 2014 (effective for annual periods beginning on or after 1 July 2016)

Amendments to IAS 1 "Presentation of Financial Statements" - an initiative for disclosure - (effective for annual periods beginning on or after 1 January 2016).

2.3.1 Assessment of impact of the above changes of Bank's management

- In accordance with IFRS 9, financial assets will classify into one of the two above-mentioned categories at initial recognition: financial assets measured at amortized cost or financial assets measured at fair value.

  A financial asset will be recognized at amortized cost if the following two criteria are satisfied: assets related to the business model, which aims to apply the agreed cash flows and contractual terms provide a basis for payment on certain dates the cash flows that are solely the collection of principal and interest on the principal outstanding.

  All other assets will be valued at fair value. Gains and losses on valuation of financial assets at fair value will be recognized in the income statement, except for investments in equity instruments that are not traded, where IFRS 9 permits, at initial recognition, the selection of unchangeable later that all changes in fair value recognized within other gains and losses in the statement of comprehensive income.

  Having in mind that the bank is in the first year of operations, and that the volume of business and the level of exposure in terms of financial instruments as at 31 December 2015 is not significant, the Bank has not defined a plan of implementation of IFRS 9 and did not carry out an assessment of the potential effects of introducing this standard. Keeping in mind the Bank's operations in the coming period will be executed above-mentioned assessment and develop a plan for the implementation of IFRS 9.

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" will not have a material effect on the financial statements, because management believes that the linear method of calculating depreciation for the Bank is the most suitable.

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures" will not have a material effect on the financial statements, because the same no holding company, subject, or Associated face, not a joint venture that would represent an investment firm.

- For other standards and interpretations that have been issued but not yet effective, the Management of the Bank believes that it will have a material effect on the financial statements of the Bank.

3. Official Reporting Currency

The Financial Statements of the Bank are presented in RSD thousands. Serbian Dinar is the official reporting currency in the Republic of Serbia.

4. Summary of Significant Accounting Policies and Estimates

4.1 Accounting Policies

4.1.1 Transactions in Foreign Currency

The Financial Statements are presented in Serbian Dinar (RSD), which is the functional currency of the Bank and the currency of the Bank's country of incorporation. Transactions in foreign currencies are translated into the functional currency at the middle exchange rate at the date of the transaction.

Foreign exchange rates determined on the Interbank Foreign Exchange Market used in the translation of balance sheet items in currencies at 31 December 2015 for major currencies are:

	31 December 2015
USD	111.2468
EUR	121.6261

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency at the middle exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the middle exchange rate at the date of initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value. The exchange differences relating to these items are part of the change in fair value and they are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

Foreign exchange differences arising on translation are recognized in the income statement.

4.1.2 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consists of:
1) Cash on hand,
2) Non-restricted placements with the National Bank of Serbia,
3) Non-restricted placements on nostro accounts with other banks.

Below is an overview of the differences between cash in the cash flow statement, cash position and balances with the Central Bank in the Balance Sheet:

In thousands of dinars	Balance sheet	Cash flows	Difference
Gyro account	71,728	71,728	-
Cash on hand	5,358	5,358	-
	77,086	**77,086**	**-**
In foreign currency			
Cash on hand	5,021	5,021	-
Foreign currency account	-	196,918	(196,918)
Liquidity surpluses deposited with the NBS	1,000,261	1,000,261	-
Mandatory reserve at NBS	65,018	-	65,018
	1,070,300	**1,202,200**	**(131,900)**
Balance as at 31 December 2015	**1,147,386**	**1,279,286**	**(131,900)**

4.1.3 Classification and Measurement of Financial Instruments

The Bank classifies the financial assets in the following four categories:
1) Loans and receivables,
2) Held-to-maturity investments,
3) Financial assets at fair value through profit or loss
4) Available-for-sale financial assets.

4.1.3.1 Initial Recognition

The Bank recognizes financial assets or financial liabilities in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Upon initial recognition the Bank measures financial assets and liabilities at fair values. Financial instruments not measured at fair value through profit or loss are initially recognized at fair value plus transaction costs and minus fees that are directly attributable to the acquisition or issue of the financial instrument.

4.1.3.2 Subsequent Measurement of Financial Assets

For each of the above categories the following applies:

1) Loans and Receivables

Non derivative financial assets, with fixed or determinable payments, that are not quoted in an active market and for which the Bank does not expect not to recover its investment, other than because of credit deterioration of the client, can be classified as loans and receivables.

The Bank has classified the following as loans and receivables:
a) Loans to clients,
b) Amounts paid to acquire a portion or the total of series of bonds that are not quoted in an active market,
c) All receivables from clients, banks, etc.,
d) Bonds with fixed or determinable payments that are not quoted in an active market.

This category is measured at amortized cost using the effective interest rate method and is periodically tested for impairment, in compliance with the procedures described under 4.1.10.

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating the interest income or expense during a specified period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the contractual life of a financial instrument or the next interest rate repricing date.

2) Held-to-Maturity Investments

Non derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold until maturity can be classified as held to maturity investments. Held to maturity investments are measured at amortized cost using the effective interest rate method and are tested for impairment at each reporting date. In cases when objective evidence exists that an impairment loss has occurred, the carrying amount of the financial asset is reduced to the recoverable amount, and the difference is recognized in profit or loss.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

3) Financial Assets at Fair Value through Profit or Loss

Financial assets in this category are as follows:
a) Financial assets acquired primarily for the purpose of selling in the near term, to obtain short term profit (financial assets held for trading),
b) Financial assets that the Bank designated, at the initial recognition, as financial assets at fair value through profit or loss.

This classification is used under following circumstances:
a) When management monitors and manages the financial instruments on a fair value basis in accordance with a documented risk management or investment strategy.
b) When the designation eliminates an accounting mismatch which would otherwise arise from measuring financial assets and liabilities on a different basis (i.e. amortized cost) in relation to another financial asset or liability (i.e. derivatives that are measured at fair value through the profit or loss).
c) When a financial instrument contains an embedded derivative that significantly modifies the cash flows or where separation of these derivatives from the main financial instruments is not prohibited.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4) Available-for-sale Financial Assets

Available-for-sale financial assets are financial assets that have not been classified in any of the previous categories. This category is measured at fair value. Changes in fair value are recognized directly in equity until the financial asset is sold. Upon sale, the cumulative gains and losses previously recognized in equity are recognized in profit or loss. The financial assets included in this category are reviewed at each balance sheet date to determine whether there is any indication of impairment. For investments in securities, a significant and prolonged decline in their fair value below their acquisition cost is considered as an objective evidence of impairment.

The Bank considers any decrease exceeding 20% of the cost of the investment to be "significant".

The Bank considers a decrease to be "prolonged" if such decrease in the fair value is below cost for a continuous period exceeding one year.

The above criteria are assessed in conjunction to the general market conditions.
In case of impairment, the cumulative loss already recognized in equity is reclassified in profit and loss.

When a subsequent event causes a decrease in the amount of impairment loss recognized on an available-for-sale financial asset, the impairment loss is reversed through profit or loss, providing that it can be objectively related to such event that occurred after the recognition of the impairment loss. The impairment losses recognized for investments in shares are not reversed through profit or loss.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.3.3 Reclassification of Financial Assets

Reclassification of non-derivative financial assets is permitted in the following cases:
1) Reclassification out of the "held-for-trading" category to the "loans and receivables" category, "investments held to maturity" category or "available-for-sale financial assets" category is permitted in some rare cases only and then the financial assets are no longer held for sale in the foreseeable future.
2) Reclassification out of the "held-for-trading" category to either "loans and receivables", or "available-for-sale" is permitted, providing, however, that the financial assets meet the definition of loans and receivables and that there is the intention to hold them for the foreseeable future or until maturity.
3) Reclassification out of the "available-for-sale" category to the "loans and receivables" category is permitted for financial assets that comply with the definition of loans and receivables and the Bank intends to hold the financial asset for the foreseeable future or until maturity.
4) Reclassification out of the "available-for-sale" category to the "held to maturity" category is permitted for financial assets that comply with the relevant characteristics of the "held-to-maturity investments" and the Bank has the intention and ability to hold that financial asset until maturity.
5) Reclassification out of the "held-to-maturity" category to the "available-for-sale" category occurs when the Bank has no longer the intention or the ability to hold these instruments until maturity. In case of a sale or reclassification of a significant amount of held-to-maturity investments, the remaining investments in this category are mandatorily transferred to the available-for-sale category. Over the period of two years from such reclassification, the Bank may not classify any securities as held-to-maturity. Exceptions apply in cases of sales or reclassifications of investments that:
   a) Are very close to maturity,
   b) After the Bank has collected substantially the entire amount of financial asset's original principal through scheduled payments or prepayments,
   c) Are caused by some specific, non-recurring event that is beyond the control of the Bank.

4.1.3.4 Derecognition of Financial Assets

The Bank derecognizes a financial asset when:
1) The cash flows from the financial asset expire,
2) The contractual right to receive the cash flows of the financial assets is transferred and at the same time both risks and rewards of ownership are transferred,
3) Loans and receivables or investments in securities are no longer recoverable and consequently are written off.

In case of transactions, where despite the transfer of the contractual right to recover the cash flows from financial assets both the risk and rewards remain with the Bank, no derecognition of these financial assets occurs. The amount received based on such the transfer is recognized as a financial liability. The accounting practices followed by the Bank in such transactions are analysed further under 4.1.16.
In case of transactions whereby the Bank transfers the risks and rewards of the financial assets, but retains control over them, the financial assets are recognized to the extent of the Bank's continuing involvement.

If the Bank does not retain control of the assets then such assets should be derecognized, and in their position the Bank recognizes, distinctively, the assets and liabilities which are created or retained during the transfer.

4.1.3.5 Subsequent Measurement of Financial Liabilities

The Bank classifies financial liabilities in the following categories for measurement purposes:

1) Financial liabilities measured at fair value through profit or loss,
    a. This category includes financial liabilities held for trading, that is:
        i. Financial liabilities acquired or incurred principally with the intention of selling or repurchasing in the near term for short term profit, or
        ii. Derivatives not used for hedging purposes.

Liabilities arising from either derivatives held for trading or derivatives used for hedging purposes are presented as "derivative financial liabilities" and are measured according to the principles set out under 4.1.4.

    b. This category also includes financial liabilities which are designated by the Bank as at fair value through profit or loss upon initial recognition, in compliance with the principles set out for financial asset, under 4.1.3.2, point 3.

2) Financial liabilities carried at amortized cost

The liabilities classified in this category are measured at amortized cost using the effective interest method.

Liabilities to credit institutions and customers, debt securities issued by the Bank and other loan liabilities are classified in this category.

In cases where the financial liabilities included in this category are designated as the hedged item in a hedge relationship, the accounting principles applied are those set out under 4.1.4.

4.1.3.6 Derecognition of Financial Liabilities

The Bank derecognizes a financial liability (or part thereof) when its contractual obligations are discharged or cancelled or expired.

1 In cases that a financial liability is exchanged with another one with substantially different terms, the exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new one.

2 The same applies in cases of a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor).

3 The terms are considered substantially different if the discounted present value of the cash flows under the new terms (including any fees paid or any fees received), discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability.

The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4.1.3.7 Netting (Offsetting) of Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, only in cases where the Bank has both the legal right and the intention to settle them on a net basis, or to realize the asset and to settle the liability simultaneously.

The Bank did not offset financial assets and financial liabilities on the balance sheet date.

4.1.4 Derivatives

Derivatives are financial instruments that upon recognition have a minimal or zero value that subsequently changes in accordance with a particular underlying instrument (foreign exchange rate, interest rate, index or other variable).

Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives are used for either hedging or trading purposes and they are measured at fair value irrespective of the purpose for which they have been transacted.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.4.1 FX Swaps

These types of swaps are entered into primarily to hedge the exposures arising from customer loans and deposits. As there is no documentation to support hedge accounting, the FX swaps are classified as trading instruments.

The result arising from these derivatives is recognized as interest and foreign exchange differences, in order to match with the interest element and foreign exchange differences resulting from the loans and deposits, and as other gains less losses on financial transactions.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.5 Fair Value Measurement

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

The Bank measures the fair value of assets and liabilities traded in active markets based on available quoted market prices. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate under the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

4.1.5.1 Financial Instruments

For financial instruments, the best evidence of fair value at initial recognition is the transaction price, unless the fair value can be derived by other observable market transactions relating to the same instrument, or by a valuation technique using only observable inputs. In these cases, if the fair value differs from the transaction price, the difference is recognized in income statement. In all other cases, fair value is adjusted to defer the difference with the transaction price. After initial recognition, the deferred difference is recognized as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the instrument.

4.1.5.2 Non Financial Assets and Liabilities

The most important category of non-financial assets for which fair value is estimated is real estate property.

The process predominantly followed for the determination of fair value are listed below:
1) Assignment to the engineer – valuer,
2) Case study - Setting of additional data,
3) Autopsy – Inspection,
4) Data processing – Calculations,
5) Preparation of the valuation report.

The fair value measurement of a property takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4.1.6 Property, Plant and Equipment

This caption includes: land, buildings used by the branches or for administrative purposes, additions or improvements of leased property and equipment.

Property, plant and equipment are initially recognized at cost which includes any expenditure directly attributable to the acquisition of the asset. Subsequently, property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditures are recognized on the carrying amount of the item when it increases future economic benefit only. Expenditure on repairs and maintenance is recognized in profit or loss, as an expense as incurred.

Depreciation is charged on a straight line basis over the estimated useful lives of property, plant and equipment and it is calculated on the asset's cost minus residual value.

Description	Estimated useful life (in years)	Minimal rate per year (%)
Buildings	Max 50	2
Furniture	Max 25	4
Electronic systems	Max 15	6.67
Other	Max 10	10

The residual value of property and equipment and their useful lives are periodically reviewed and adjusted if necessary at each reporting date.

Property, plant and equipment are reviewed at least once a year to determine whether there is an indication of impairment (impairment test) and if they are impaired, the carrying amount is adjusted to its recoverable amount and the difference is recorded in profit or loss. If there is an indication that some event might have caused the impairment, the Bank is performing the impairment test even more often than once per year.

Gains and losses from the sale of property and equipment are recognized in profit or loss.

4.1.7 Investment Property

This category includes buildings or portions of buildings that are held to earn rental income or for the purpose of increase of their value. Investment property is initially recognized at cost which includes any expenditure directly attributable to the acquisition of the asset.

At the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.8 Intangible Assets

In this category, the Bank has included software, which is measured at cost less accumulated amortization, and impairment losses.

The cost of separately acquired software comprises of its purchase price and any directly attributable cost of preparing the software for its intended use.

Amortization is charged over the estimated useful life of the software, which the Bank has estimated to 15 years. The Bank's core system is estimated to 7 years. Expenditure incurred to maintain software programs is recognized in the income statement as incurred.

Software that is considered to be an integral part of hardware (hardware cannot operate without the use of the specific software) is classified under "Property, plant and equipment".

Intangible assets are amortized using the straight line method, excluding those with indefinite useful life, which are not amortized.

All intangible assets are tested for impairment. No residual value is estimated for intangible assets.

4.1.9 Lease

The Bank enters into leases either as a lessee, or as a lessor. When all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee they are classified as finance leases. All other lease agreements are classified as operating leases.

The accounting treatment followed depends on the classification of the lease, which is as follows:

4.1.9.1 When the Bank is the Lessee

1) Finance Leases:

For finance leases, where the Bank is the lessee, the leased asset is recognized as "Property, plant and equipment" and a respective liability is recognized in "Other liabilities".

At the commencement of the lease, the leased asset and liability are recognized at amounts equal to the fair value of leased property, or (if lower) at the present value of the lease payments. The discount rate used in calculating the present value of the lease payments is the interest rate implicit in the lease or, if this is not available, the Bank's borrowing rate for similar financing.

Subsequent to initial recognition the leased assets (recognized as "Property, plant and equipment") are depreciated over their useful lives unless the duration of the lease is less than the useful life of the leased asset and the Bank does not expect to obtain ownership at the end of the lease, in which case the asset is depreciated over the term of the lease. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

2) Operating Lease:
For operating leases, the Bank as a Lessee does not recognize the leased asset but charges in general administrative expenses the lease payments on an accrual basis. Bank are operating leases for office space and cars.

4.1.10 Impairment of Loans and Receivables

The Bank assess as at each balance sheet date, whether there is objective evidence of impairment of loans and receivables in accordance with the general principles and methodology set out in IAS 39 and the relevant internal methodology.

The bank currently has a small number of advances, and assesses them on an individual basis, with the growth of the portfolio will gradually develop internal methodology. The Bank has defined credit events based on which it determines whether there has been impairment.

Objective evidence of impairment of balance sheet assets on an individual basis, of:

- if the debtor's financial condition indicates significant problems in his business;
- if there are data of settlement of liabilities, the frequent delays in payment of interest and / or principal, or the non-fulfilment of other contractual provisions;
- if the bank, due to financial difficulties of the debtor, essentially change the terms of repayment claims in relation to those originally agreed;
- if it becomes certain that it will be launched bankruptcy proceedings against the debtor or other of its financial reorganization.

The bank currently has no defined groups for collective assessment, there is no sufficient long history and already in the first year developed internal methodology based on statistical calculations that would be credible portfolio of the Bank.

The Bank will carry out a collective assessment when conditions call for it.

4.1.11 Impairment of Non-Financial Assets

The Bank assesses at least once per year non-financial assets for impairment, particularly property, plant and equipment, investment property and intangible assets. In assessing whether there is an indication that an asset may be impaired, both external and internal sources of information are considered, of which the following are indicatively mentioned:

1) The asset's market value has declined significantly, more than would be expected as a result of the passage of time or normal use;
2) Significant changes with an adverse effect have taken place during the period or will take place in the near future, in the technological, economic or legal environment in which the Bank operates or in the market to which the asset is dedicated;
3) Significant adverse changes in foreign exchange rates;
4) Interest rates have increased during the period, and such increases are likely to affect the discount rate used in calculating an asset's value in use;
5) The carrying amount of the net assets of the Bank is more that its market capitalization;
6) Evidence is available of obsolescence or physical damage of an asset.

An impairment loss is recognized in profit or loss when the recoverable amount of an asset is less than its carrying amount.

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

Fair value less costs to sell is the amount received from the sale of an asset (less the cost of disposal) in an orderly transaction between market participants.

Value in use for property, plant and equipment is the present value of the future cash flows expected to be derived from an asset or cash–generating unit through their use and not from their disposal. Value in use incorporates the value of the asset as well as all the improvements which render the asset perfectly suitable for its use by the Bank.

On the balance sheet date the Bank has no impairment of non-financial assets.

4.1.12 Income Tax

Income tax consists of current and deferred tax.

Current tax for a period includes the expected amount of income tax payable in respect of the taxable profit for the current reporting period, based on the tax rates enacted at the balance sheet date.

Deferred tax is the tax that will be paid or for which relief will be obtained in future periods due to the different period that certain items are recognized for financial reporting purposes and for taxation purposes.

It is calculated based on the temporary differences between the tax base of assets and liabilities and their respective carrying amounts in the financial statements.

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the temporary difference reverses, based on the tax rates (and laws) enacted at the balance sheet date (15 percent).

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Income tax, both current and deferred, is recognized in profit or loss except when it relates to items recognized directly in equity. In such cases, the respective income tax is also recognized in equity.

4.1.13 Non-Current Assets Held for Sale

Non-current assets that are expected to be recovered through a sale transaction, along with the related liabilities, are classified as held-for-sale.

The above classification is used if the asset is available for immediate sale in its present condition and its sale is highly probable. The sale is considered highly probable when the following conditions are met:

1) It has been decided by the Management,
2) An active program to locate a buyer has been launched,
3) The asset has to be actively marketed for sale, at a price which is reasonable in relation to its current fair value, and
4) The sale is expected to be completed within one year.

Non-current assets that are acquired exclusively with a view to their subsequent disposal are classified as held for sale at the acquisition date when the one-year requirement is met and it is highly probable that the remaining criteria will be met within a short period following the acquisition (usually within three months).

Non-current assets held for sale consist mainly of assets acquired through the enforcement of security over loans and advances.

Prior to their classification as non-current assets held for sale, such assets are remeasured in accordance with the respective accounting standard.

Assets held for sale are initially recognized and subsequently measured at each balance sheet date at the lower of their carrying amount and fair value less cost to sell.

Any loss arising from the subsequent measurement is recorded in profit or loss and can be reversed in the future.

Assets in this category are not depreciated. Gains or losses from the sale of these assets are recognized in the income statement.

Non-current assets that are acquired through enforcement procedures based on loans and receivables but are not available for immediate sale or are not expected to be sold within a year are included in “Other Assets” and are measured at the lower of cost (or carrying amount) and fair value.

Non-current assets held for sale, that the Bank subsequently decides either to use or to lease, are reclassified to the categories of "Property, plant and equipment" or "Investment property". For reclassification purposes, such assets are measured at the lower of their recoverable amount and their carrying amount (before they were classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the assets not been classified as held for sale).
As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.14 Employee Benefits

A defined benefit plan is a pension plan that defines an amount of pension benefit that is to be paid to the employee on retirement.

As at each balance sheet date, the Bank is estimating the long-term provisions for retirement pay as the present value of the expected future payments to employees, based on an actuarial valuation.

The net liability recognized in the profit or loss is the present value of the defined benefit obligation (which is the expected future payments required to settle the liabilities resulting from employee service in the current and prior periods).

The present value of the defined benefit liability is calculated based on the return of high quality corporate bonds with a corresponding maturity to that of the obligation, or based on the return of government bonds in cases when there is no deep market in corporate bonds.

Interest on the net defined benefit liability, which is recognized in profit or loss, is determined by multiplying the net defined benefit liability by the discount rate used to discount post-employment benefit obligation, as determined at the beginning of the financial year, taking into account any changes in the net defined benefit liability.

Service cost, which is also recognized in profit or loss, consists of:
1) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
2) Past service cost that is the change in the present value of the defined benefit obligation for employee service/services provided in previous periods, resulting from the changes (introduction or withdrawal to a defined benefit plan) or a curtailment (a significant reduction in the number of employees covered by a plan by the Bank);
3) Any gain or loss on settlement.

Prior to determining the past service cost and gain or loss on settlement, the Bank remeasures the net defined benefit liability using the current actuarial assumptions, curtailment or settlement.

Past service cost is directly recognized to profit or loss at the earliest of the following dates:
1) When the plan is changed or when curtailment occurs; or
2) When the Bank recognizes restructuring costs (in compliance with IAS 37) or when the benefits are terminated.

Likewise, the Bank recognizes a gain or loss on the settlement when the settlement occurs.

Remeasurements of the net defined benefit liability, which comprise of:
1) Actuarial gains and losses;
2) Any change in the effect of the limitation of assets, excluding amounts included in net interest on the net defined benefit liability, are recognized directly in other income and cannot be recognized in profit or loss in subsequent periods.

When the Bank decides to terminate the employment contract before retirement or the employee accepts the Bank's offer (which includes certain benefits) in exchange for termination of employment, the liability and the relative expense for termination benefits are recognized at the earlier of the following dates:
1) When the Bank can no longer withdraw the offer of those benefits; and
2) When the Bank recognizes restructuring costs that involve the payment of termination benefits.

4.1.15 Provisions and Contingent Liabilities

A provision is recognized if, as a result of a past event, the Bank has a present legal or contractual obligation that can be estimated reliably, and it is certain that an outflow of economic benefits will be required to settle the obligation.

Provisions are, also, recognized in cases of restructuring plans based on the management attempts either to change the corporate activity or the manner in which it is conducted (e.g. close down of branches).

The recognition of a provision is accompanied with the relevant program authorized by the Management and with the suitable actions of disclosure.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Where the effect of the time value of money is material, the amount of the provision is equal to the present value of the expenditures expected to settle the obligation.

Amounts paid for the settlement of an obligation are set against the original provisions for these obligations.

Provisions are reviewed at the end of each reporting period.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Additionally, provisions are not recognized for future operating losses.

Future events that may affect the amount required to settle the obligation, for which a provision has been made, are taken into account where sufficient objective evidence exists that they will occur.

Reimbursements (refunds) from third parties relating to a portion of or the entire estimated cash outflow are recognized as assets, only when it is very certain that they will be received.

The amount recognized for the reimbursement (refund) must not exceed the amount of the provision.

The expense recognized in profit or loss relating to the provision is presented net of the amount of the reimbursement (refund).

The Bank does not recognize in the statement of financial position contingent liabilities which relate to:
1) Contingent liabilities resulting from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or
2) Present liabilities resulting from past events and:
   a) It is not probable that an outflow of resources embodying the economic benefits will be required to settle the liability; or
   b) The liability amount cannot be estimated reliably.

The Bank provides disclosures for contingent liabilities taking into consideration materiality thereof.

4.1.16 Repo operations and pledge on securities

The Bank purchases securities under agreements to resell on a certain future date, at a fixed price (repos).

Securities purchased subject to commitments to resell them at future dates are not recognized as investments. These are recognized as “Loans and Receivables” from banks or clients, in the amount paid.

The difference between the purchase and resale price is recognized as interest income, on accrual basis.
Securities sold under agreements to repurchase continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category that they have been classified in and are presented as investments.

The proceeds from the sale of the securities are reported as liabilities to either banks or customers.

The difference between the sales price and the repurchase price is recognized as interest expenses on accrual basis.

Securities acquired by the Bank under securities resale agreements are not recognized in the balance sheet except when these are sold to third parties whereby the liability to deliver the security is recognized and measured at fair value.

4.1.17 Equity

4.1.17.1 Distinction between Debt and Equity

Financial instruments issued by the Bank to obtain financial assets are classified as equity in cases where, based on the substance of such transaction, the Bank does not undertake a contractual obligation to pay cash or another financial asset or to exchange financial instruments under conditions that are potentially unfavourable for the issuer.

In cases where the Bank is required to issue equity instruments in exchange for the funding obtained, the number of equity instruments must be fixed and determined on the initial contract, in order for the obligation to be classified as equity.

4.1.17.2 Incremental Costs of Share Capital Increase

Incremental costs directly attributable to the issue of new shares are presented in equity as a deduction, net of tax, from retained earnings.

4.1.17.3 Share Premium

Share premium is the difference between the nominal value of shares and actually received consideration in case of a share capital increase. The share premium additionally includes the difference between the nominal value of issued shares and the market value of such shares, in cases of exchanges of shares as consideration for acquisition of a business (company) by the Bank.

4.1.17.4 Retained Earnings

Retained earnings are previous years' earnings for which General Assembly have not made any decision on distribution.

4.1.18 Interest Income and Expense

At accounts: revenue from interest on loans, deposits, securities, other investments and assets in dinars and foreign currency, shall disclose accrued income from regular and default interest in the current accounting period, regardless of the time it falls due for payment.

At accounts: expense from interest on loans, deposits, securities, other investments and assets in dinars and foreign currency, shall disclose accrued income from regular and default interest in the current accounting period, regardless of the time it falls due for payment.

Interest income and expense is recognized in the income statement for all interest bearing financial assets and liabilities. Interest income and expense are recognized on accrual basis and measured by using the effective interest rate.

The effective interest rate method includes all paid or received fees and costs, which are integral part of effective interest rate. Interest on impaired financial assets is determined in the manner specified under 4.1.10.

4.1.19 Fee and Commission Income and Expenses

Accounts of income from fees and commissions in dinars and foreign currency, shall disclose income from fees and commissions accounted for in the current accounting period irrespective of the time of their collection, such as fees for dinar and foreign payment transactions, fees for warranty processing, etc.

Accounts of expenditure fee and commission income, in dinars and foreign currency, shall disclose accrued fees and commission expenses in the current accounting period irrespective of the time of their payments, such as fees for dinar and foreign currency payments, commissions of other banks, etc.

Fee and commission income is recognized in the income statement on accrual basis in the period when the relevant service was provided.

Fees and commissions income and expense that are integral part of effective interest rate are included in the calculation of effective interest rate and accordingly reported within interest income or interest expenses.

4.1.20 Related Parties

Pursuant to IAS 24, a related party is a person or entity that is related to the entity that is preparing its financial statements. For the Bank in particular, related parties are considered to be:

A. The parent company, and entities that constitute for the Bank or the parent company:
- A branch,
- A joint venture.

B. The person and a close member of that person's family, if such person is a member of the key management personnel.

The Bank considers all the members of the Board of Directors and of the Executive Board to be the key management personnel. Close family members of the above mentioned persons are considered to be:
- Spouses or domestic partners of such persons,
- The first degree relatives of that person's spouse or domestic partner, and
- Dependents of that person or dependents of that person's spouse or domestic partner.

In addition to that, the Bank discloses all transactions and outstanding balances with entities which are controlled or jointly controlled by the above mentioned persons. This disclosure concerns stakes and shares of the above mentioned persons in entities that exceed 20%.

4.1.21 Comparative data

To the extent considered necessary, the comparatives are adjusted to facilitate changes in presentation of the current year amounts. The bank began operations in 2015 and therefore no comparative figures for 2014.

4.1.22 Significant accounting estimates and judgments

The Bank, in the context of applying accounting policies and preparing financial statements in accordance with the International Financial Reporting Standards (IFRS), makes estimates and assumptions that affect the amounts recognized as income, expenses, assets or liabilities. The use of estimates and assumptions is an integral part of recognizing amounts in the financial statements that mostly relate to the following:

4.1.22.1 Fair Value of Assets and Liabilities

For assets or liabilities traded in active markets, the determination of their fair value is based on quoted, market prices. In all other cases the determination of fair value is based on valuation techniques that use observable market data to the greatest extent possible. In cases where there is no active market, the fair value is determined using data that are based on internal estimates and assumptions, such as, for example, determination of expected cash flows, discount rates, prepayment probabilities or potential counterparty default.

4.1.22.2 Impairment of Financial Assets

The Bank, when performing impairment tests on loans and receivables, makes estimates in compliance with the amount and timing of future cash flows. Given that these estimates are affected by a number of factors, such as the financial position of the borrower, the net realizable value of any collateral or the historical loss ratios per portfolio, actual results may differ from those estimated. Similar estimates are used in the assessment of impairment losses of securities classified as available for sale or held to maturity.

On the balance sheet date the Bank has no impairment of non-financial assets.

4.1.22.3 Impairment of Non-Financial Assets

The Bank, at each balance sheet date, assesses for impairment the non – financial assets, and in particular property, plant and equipment, investment property and other intangible assets. Internal estimates are used to a significant degree to determine the recoverable amount of the assets, i.e. the higher between the fair value less costs to sell and the value in use.

On the balance sheet date the Bank has no impairment of non-financial assets

4.1.22.4 Income Tax

The Bank recognizes the amounts of current and deferred income tax based on estimates concerning the amount of taxable profits, based on which the amounts of tax expected to be paid or recovered in the current and future periods are determined. Estimates are affected by factors such as the practical implementation of the relevant legislation, the expectations regarding the existence of future taxable profit etc. Future tax audits, changes in tax legislation and the amount of taxable profit actually, may result in tax payments other than those recognized in the financial statements of the Bank.

4.1.22.5 Employee Benefits

Long-term provisions for retirement pays are made based on actuarial valuations that include assumptions regarding the discount rate, future changes of salaries and pensions. Any change in these assumptions affect the amount of liabilities recognized.

4.1.22.6 Provisions and Contingent Liabilities

The Bank recognizes a provision when it estimates that it has a present legal or contractual obligation that can be estimated reliably, and it is almost certain that an outflow of economic benefits will be required to settle the obligation. In contrast, when it is probable that an outflow of resources will be required, or when the amount of liability cannot be measured reliably, the Bank does not recognize a provision, but it provides disclosures for contingent liabilities, taking into consideration their materiality.

The estimation for the probability of the outflow, as well as for the amount of the liability are affected by factors which are not controlled by the Bank, such as court decisions, the practical implementation of the relevant legislation and the probability of default of the counterparty (for the cases related to the exposure to off-balance sheet items).

On the balance sheet date the Bank has no provision for contingent liabilities, such as court decisions, not fulfilling the obligations of the counterparty obligations, etc.

The estimates and judgments applied by the Bank in making decisions and in preparing the financial statements are based on historical information and assumptions which are considered appropriate at present. The estimates and judgments are reviewed on an ongoing basis in order to take into account current market conditions. The effect of any changes in estimates is recognized in the period in which the estimates are revised.

5. Financial risk review

In compliance with the nature of its business activity, the Bank established an adequate risk management system, which pertains to the management of types of risks, and especially so for the most important risks that may arise during operation.

Risk Management Objectives and Principles

The Bank established the risk management process through:
- A specified risk management strategy;
- Clearly defined risk management policies and procedures that include risk identification, measuring, monitoring, reporting and control;
- Adequately established organizational structure that clearly defines the roles and responsibilities of individuals involved in undertaking of risks, risk management and supervision of risk management adequacy;
- Independence of the organizational units tasked with risk management from those tasked with other business activities;
- Effective information system intended for use by the management, which provides information flow from the operational level to top management, as well as the reporting system for any deviations identified;
- Continuous independent supervision of the risk management system.

Responsibilities

The Board of Directors, Supervisory Board, Executive Board, Asset and Liability Committee are responsible for establishing of the system and for the supervision of the risk management system in compliance with the regulations of the National Bank of Serbia, policy and principles of the Bank and risk management best practices.

With the aim to set up a consolidated risk management system and to provide for the functional and organizational independence of the risk management function from the regular business activities, in addition to the legally prescribed management bodies, individual Boards and Committees of the Bank are responsible for risk management, in compliance with the Rules on their operations.

Bodies of the Bank continuously monitor the changes in legal regulations as well, they analyse the impact of such changes to the risk levels on the level of the Bank and undertake measures to bring the operations and procedures with newly adopted regulations within the controlled risk.

In addition to the above, the introduction of new products, activities, lines of business and systems is followed by the required business, market and economic analyses with the aim to determine their impact on the risk portfolio of the Bank.

Bodies of the Bank responsible for risk management jointly establish the risk management principles and methodology, based on the following:

- Regulations and decisions passed by the legislative authorities, and principally by the National Bank of Serbia;
- Risk appetite of the bank adopted as an internal regulation by the Board of Directors of the Bank;
- Needs of the good business practice, with the aim to adequately identify, measure and estimate the risks, as well as to manage the risks to which the Bank is exposed.

Risk Measurement and Reporting

Organizational units responsible for monitoring of individual risk types and other expert services continuously monitor the indicators of individual categories of risks within their specific competencies and perform measuring, control and reporting to the competent Boards/Committees of the Bank, in compliance with the risk management system established by means of the most important internal acts regulating risk management.

Overview of Risk Types

In compliance with the Risk Management Strategy, the Bank has classified the potential operating risks in the following categories:

A. **Credit risk** and risks related to credit risk (concentration risk, country risk, FX credit risk, residual risk)
B. **Liquidity risk**,
C. **Market risk**, interest risk in banking book, foreign exchange risk,
D. **Capital management**.

In addition to the above listed risks, the following risks may arise as well:
- Strategic risk,
- Reputational risk,
- Compliance risk,
- Operational risk,
- Other risks that are difficult to quantify.

5.A. Credit risk

Credit risk is the risk of negative effects on the financial result and capital of the Bank caused by borrower's default on its obligations to the Bank.

The basic goal of credit risk management within the Bank is to reduce the possibility of occurrence of negative effects on the financial result and capital of the Bank due to the failure of the debtors to meet their obligations towards the Bank. In order to control the acceptance of the credit risk and adequate management of such risks, the Bank has established an adequate credit process which includes the approval of placements and credit risk management, which are regulated by Bank's procedures.

The credit risk management process includes:
- identification,
- evaluation and measuring,
- monitoring and
- reporting about the credit risk.

Credit Risk Management

The Bank manages the credit risk from individual borrowers, portfolio risk, transaction risk, i.e., it manages the collaterals separately, through the management of:
- Default risk – the risk of defaulting by the borrower;
- Risk from the changes in asset value – the risk of losses in the value of assets;
- FX credit risk – the risk of defaulting by the borrower due to a significant rise in the foreign exchange rate;
- Concentration risk that originates from the exposure to entities from the high exposures group, as well as the concentration risk that originates from the concentration of exposure to individual risk factors pertaining to: the economic sector, geographical area, product type and loan hedging activities and the similar.

Credit risk is adequately managed through risk identification, measuring, control, monitoring and reporting.

With the aim to achieve an effective credit risk management framework, the Bank has defined the basic components as follows:
- Establishing and supervision of the system by the Board of Directors and senior management,
- Clear allocation of competencies and responsibilities in the management process,
- Adequate implementation of management system and relevant policies and procedures.

The credit risk management process includes the following:

- Risk identification in compliance with the adopted procedures,
- Risk measuring and assessment by using the prescribed methodologies,
- Risk monitoring and control in accordance with the established procedures, as well as the application of relevant risk mitigation techniques, by using the loan hedging instruments,
- Reporting on exposure to credit risk.

Supervision by the Board of Directors and Senior Management

The Board of Directors of the Bank approved the credit risk management strategy and policies. The Board of Directors adopts the risk profile of the Bank and supervises the implementation of the process of adequate credit risk management, to ensure that the total credit risk exposure of the Bank is maintained on a safe level and matched to available capital both under the regular conditions and in crisis and any disturbances in the market.

Credit risk management of the Bank is based on the implementation of the following basic principles:

- Conservative approach to credit risk management,
- Management through defined control levels,
- Credit policy cycles in conjecture with segmentation of clients, products, economic sectors, geographic locations, currencies and maturity dates,
- Focus on the target market in compliance with the strategy,
- Diversification of credit exposure, and
- Risk pricing.

The Executive Board of the Bank, as well as other bodies are responsible for the development and establishing of credit policies and credit administration procedures within the relevant organizational units of the Bank, as a part of the general credit risk management system and for the adequate implementation and permanent supervision of such system.

Prior to the approval of any investment, competent decision-making levels perform assessments of the risk profile of the client/transaction, and following that, the continuous monitoring of the value of receivables and collaterals' values and adequacy is performed.

Limit Setting

The Bank actively participates in the management of its exposure to credit risks by means of defining and setting the exposure limits for individual borrowers and for the group of related borrowers. Adequate limits are determined for specific products and activities. Credit limits are revised from time to time.

Credit Risk Supervision and Control

Supervision of credit risk pertains to continuous supervision of individual loans, including the off-balance sheet exposure to borrowers and supervision of the entire portfolio of the Bank.

The system established for the credit risk supervision includes the following:

- The time dimension of the supervision in accordance with the nature of the credit risk (from daily to quarterly),
- Different supervisory procedures on predefined decision making levels,
- Continuous independent internal control of the lending process,
- Separate credit risk management on the level of clients and on the portfolio level, as well as on the level of transactions,
- Collateral management, and
- Management of risk investments.

The Bank conducts this activity with the aid of a system that ensures daily supervision of the quality of credit portfolio and implements corrective measures if and when the creditworthiness of a client deteriorates.

This system is created to ensure reliable monitoring of placements' servicing in accordance with the specified deadlines, adequacy of impairments, maintenance of the total risk profile within the limits set by the management and compliance with the regulatory limits by the Bank. Credit monitoring system is created to provide support to the senior management in the supervision of the quality of the entire credit portfolio and its trends.

Credit Risk Identification

The credit risk identification is the basic step in the credit risk management aiming to detect credit risk in a timely manner.

The identification of exposure to a specific risk starts at the moment of submitting of the loan application. The analysis of individual placements includes the analysis of the qualitative and quantitative indicators of the client, as well as the identification of other client's risk factors.

The approval process consist of the defined steps which may differ depending on the type of the client, the characteristics, type and the purpose of placement, the security instruments and include following steps:

- The preparation of the proposals for credit placement;
- The collection and verification of the credit documents;
- Credit analysis;
- Risk assessment;
- Placement approval;
- Control of the accompanying documents and other conditions;
- Disbursement of the funds.

Credit Risk Assessment and Measurement

The Bank has defined the mechanism of independent, continuous assessment of credit risk management process. The result of such assessment is documented in an adequate manner, and is a part of the reporting system to the Board of Directors and senior management.

Management of Non-Performing Loans

The Bank has a defined and established system that enables prior identification of non-performing loans where there is a number of acceptable options for corrective measures. As soon as a loan is designated as non-performing, the course of the management of such loan changes and it is included in the implementation of special corrective procedures.

With the aim to reduce the risk of defaulting by the clients, the Bank may undertake the following measures to regulate the receivables:

- Rescheduling and restructuring,
- Activation of collaterals,
- Sales and assignment of receivables,
- Settlements,
- Initiation of court procedures and other measures.

In case that the measures undertaken should fail to produce adequate results, the proposal for permanent write-off of outstanding receivable will be made in the collection procedure on the specified decision-making levels.

The assessment of the credit risk is being performed during the review of the requirements for a specific placement, the requests for the change of conditions, terms of use and repayment of certain loan, as well as during the regular annual report about the business operations of the client. The assessment of the credit risk is based on the analysis of financial situation of the debtor, the timeliness of debtor's settlement of the obligations towards the Bank, qualitative data collected about the client and the quality of collateral instruments.

The process of measuring the credit risk is based on regulatory approach according with the classification of the debtor's receivables, as well as the assessment of the provisions for losses per off-balance positions, in line with the regulations of the National Bank of Serbia.

Credit Risk Mitigation

In order to mitigate the credit risk, during the approval of the placement, security instruments are requested. The amount and type of the requested security instrument depends on the evaluated credit risk of each client. The security conditions that follow each placement depend on the creditworthiness of the debtor, the type and the degree of exposure to the credit risk, the maturity and the amount of placement.

Credit Risk Monitoring

After the approval of the placement, the clients are being monitored through regular and extraordinary monitoring aiming to ensure timely identification of the warning signs.

In order to prevent any increase in the credit risk, monitoring process is established to identify clients for which it is necessary to take measures to prevent their migration from the status of non-problematic clients to the status of clients under intensive monitoring or of problematic clients.

The status of the client is defined based on the combination of the basic indicators (number of days of delay, account freezing, etc.), financial indicators and the professional opinion of the employees involved in the risk management process.

By monitoring the portfolio at the level of the individual placements and at the level of the entire credit portfolio, the Bank performs a comparison against the previous periods, identifies the tendencies and causes of changes in the level of exposure to the credit risk, while trying to maintain adequate provisioning levels, in order to be able to absorb the expected and unexpected credit losses pertaining to the credit portfolio.

Impairment Assessment

Impairment of placements (provisioning) is determined based on the assessment indicating the cash flows that will not be realized, and in principle it is the difference between the carrying amount less the determined uncollectible percentage and the recoverable amount – expected cash flows discounted by using the effective interest rate.

Recoverable amount is the present value of the expected future cash flows (inflows), discounted by using the effective interest rate.

The most important factors taken into account in impairment assessment of a financial asset or a group of financial assets include objective evidence that can include: significant difficulties of the client, non-compliance with the agreed conditions, high probability of bankruptcy or some other change in the organizational and financial status of the client, deteriorating of an active market for the financial asset, etc.

Financial assets subject to impairment assessment are classified in two separate groups: the receivables that are assessed for impairment: (a) individually – for receivables where there is objective evidence of impairment and according to the amount of material receivables and (b) collectively – for receivables that are not assessed individually. Taking into consideration the size and the maturity of the Bank's loan portfolio, the Bank currently does not perform collective assessment.

Individual Assessment

Individual assessment is performed for individual significant receivables where there is objective evidence that the receivables will not be collected by the Bank in the originally agreed amount or within the originally agreed deadlines, or for the receivables where there is objective evidence of impairment.

On the occasion of impairment assessment, the potential for the realization of the business plans of the client, client's capacity to improve their business results in case of any financial difficulties, value at which the collaterals can be realized and time period for collateral realization, availability of any alternative financial support for clients, potential for collection of receivables mature, as well as the time dimension of the expected cash flows are all taken into account.

In cases where it is estimated that the collection from the regular activities of the client will not be possible, the expected inflow from collateral realization is additionally taken into account on the occasion of individual assessment for impairment.

Collective Assessment

Currently the Bank does not apply collective assessment consideration the size and the maturity of the loan portfolio.

Assessment of Provisioning for Off-Balance Sheet Items

Assessment of provisioning for off-balance sheet items (guarantees, avals, letters of credit, etc.) is performed in compliance with the adopted criteria, individually and on collective basis.

Evidence based on which the Bank performs individual impairment assessments of the items of off-balance sheet assets are payments from the Bank accounts for obligations undertaken for guarantees, avals and letters of credit and other off-balance sheet items that can potentially be activated at the expense of the Bank.

Assessment of provisioning for off-balance sheet items on individual basis is performed in the same manner as for the receivables in the balance sheet assets, by using the same software application, bearing in mind that the majority such cases involve an intervention from the part of the Bank, i.e., the transfer of an off-balance sheet item in the balance sheet.

5.A. i. Credit Quality Analysis

The tables below set out information about the credit quality of balance sheet and off-balance sheet

		Loans and advances to customers		**Loans and advances to banks**	
in thousands of dinars	*Note*	**2015**	**2014**		**2014**
Maximum exposure to credit risk					
Gross amount		510,161	-	201,783	-
Impairment Provision					
Net book value	16, 17	510,161	-	201,783	
Out of which					
Neither past due nor impaired					
Grade 1–3: Low risk		510,161	-	201,783	-
Off balance sheet items					
Neither past due nor impaired					
Grade 1–3: Low risk		**157,524**			
Net book value	27	**157,524**			

The bank at the end of the reporting period, no impairment of financial assets.

5.A. ii. Collateral Held and Other Credit Enhancements

Collateralization of credit exposures serves as an important risk mitigation factor and enhances the incentives for borrowers to repay their financial obligations. Collateral provides additional security and the Bank generally requests that corporate borrowers provide it.

The collateral has to be permitted by law and deemed appropriate by the Credit Committee. The collateral serves as a guarantee that the Bank, as the creditor, can recover the credit exposure and as a means of motivating the borrower to repay the credit exposure.
The Bank makes agreement with the client in which the client agrees to register certain collateral with the Bank in order to cover various credit facilities that the client intends to utilize during the term of validity of the agreement.

The lending decision is primarily based on assessment of the business and the creditworthiness of the borrower and his/her ability to repay the requested credit exposure, as well as on other factors related to credit risk. Nevertheless, the Bank aims to secure its claims against the clients it finances with high-quality collateral.

The Bank will require that the financed asset will serve as collateral for the credit exposure.

The choice of the collateral is closely related to the credit risk assessment, which depends on the financial status of the borrower, the credit exposure amount, the maturity, the purpose of the credit exposure and the manner in which it is to be repaid.

Given that there was no impairment of the posting of impairment as at 31 December 2015, collateral is not used in the calculation of the correction, i.e. no effect on the calculation of collateral impairment.

Collateral in Thousands of dinars	**Market value as at 31 December 2015**	**Market value as at 31 December 2014**
Land	124.059	-
Office building	103.880	-
Deposits	12.163	-
Equipment	25.176	-
Receivables	46.131	-
Pledge on shares	61	-
Corporative guarantee	101.355	-
Total	**412.824**	**-**

5.A. iv. Concentrations of Credit Risk

Exposure to risks per regions, industrial sectors and types of clients is presented in the Tables below, to present the exposure to concentration risk. Depending on the general economic trends and the trends observable in individual industrial sectors, the Bank performs diversification of investments in industrial sectors that are resistant to the influence of the negative economic trends.

		Loans and advances to banks		Loans and advances to customers	
in thousands of dinars	Note	**2015**	**2014**	**2015**	**2014**
Carrying amount	*16, 17*	**201,783**	**-**	**510,161**	**-**
Concentration by sector					
Corporate:		-	-	510,161	-
Agriculture, forestry and fishing		-	-	154,149	-
Mining, manufacturing, water supply, sewerage, waste management and remediation		-	-	196,559	-
Construction		-		11,996	
Wholesale and retail trade, repair of motor vehicles and motorcycles		-		147,457	
Banks		201,783	-	-	-
Total		**201,783**	**-**	**510,161**	**-**
Concentration by location					
Europe		201,783	-	510,161	-
Total		**201,783**		**510,161**	

5.A. v. Impaired Loans

The Bank will assess the impairment of receivables, i.e. the calculation of provisions for balance sheet assets and provisions for losses on off-balance sheet items on an individual basis, until conditions are fulfilled for calculation of impairment on the collective basis (existence of portfolio historical data), in accordance with the methodology for impairment assessment of balance sheet assets and provisions for losses on off-balance sheet items.

The individual assessment of balance sheet assets for impairment include determining the existence of objective evidence of impairment, estimation of the present value of future cash flows, and calculation of the amount of impairment for each individual receivable from the borrower which is included in the assessment.

Objective evidence of impairment of balance sheet assets at individual level exists:
- if the borrower's financial position indicates significant problems in its business operations;
- if there are data on the non-performance of obligations, frequent delays in the repayment of interest and/or principal, or non-compliance with other contractual provisions;
- if due to the borrower's financial difficulties, the Bank changes significantly the terms of repayment of the receivable concerned relative to the those agreed originally;
- if the opening of bankruptcy proceedings against the borrower or any other type of its financial reorganization seems highly likely.

The individual evaluation of the impairment, i.e. the calculation of the impairment on individual basis, is based on the evaluation of the expected time of collection, i.e. the projection of the expected money flow from the collection of receivables. At 31th of December 2015 the Bank had no impairment.

Collateral Management

The Collateral Management Policy regulates in greater detail the methods and procedures for collateral management with the aim to minimize the credit risk for the Bank. The purpose of this Policy is to describe the characteristics of the collaterals accepted by the Bank, as well as to specify the necessary activities within the regular monitoring of collateral acceptance. This document describes the allocation of responsibilities among individual organizational units of the Bank, aimed at efficient performance of the collateral management process.

Collaterals are presented in the financial statements at their fair (as last assessed) value, which is at the same time the subject of continuous monitoring process and periodical assessments. Collateral classification in the overview is performed based on the criteria specified in the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items.

As at 31 December 2015, the Bank had no impairment.

5.B. Liquidity risk

i. Exposure to liquidity risk

Liquidity risk is the potential for the occurrence of certain unfavourable events with adverse effects on the financial result and equity of the Bank, as the inability of the Bank to meet its liabilities due at the time of their maturity, due to the inadequate structure of its sources, i.e. because its placements are not marketable.

The Liquidity risk is the possibility of occurrence of negative effects on financial result and the capital of the bank due to incapability of the Bank to fulfil its matured obligations due to:

Withdrawing of the existing sources of finance, i.e. inability to obtain new sources of finance. Difficult conversion of property into liquid assets due to disturbances on the market.

Liquidity ratio is a ratio between the sum of Bank's liquid first- and second-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

Narrow liquidity ratio is the ratio between the sum of Bank's liquid first-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

The bank's first-degree liquid receivables shall include cash and receivables where the agreed maturity falls within one month from the date of calculation of liquidity ratio, as follows: vault cash, gyro-account balances, gold and other precious metals; funds in the accounts with banks with available credit rating of the chosen credit rating agency equivalent to credit quality 3 or better, determined in accordance with the decision on capital adequacy of banks (investment rank); deposits with the National Bank of Serbia; cheques and other monetary receivables in the process of execution; irrevocable credit facilities approved to the bank; shares and debt securities quoted on the stock exchange. Liquid first-degree receivables of the bank shall also include 90% of the fair value of securities denominated in dinars with no foreign currency clause, issued by the Republic of Serbia with minimum maturity of three months/90 days, which the bank has classified as securities that are traded or securities available for sale. Bank's second-degree liquid receivables shall include other bank receivables falling due within one month from the date of calculation of liquidity ratio.

Receivables classified into D and E categories according to the decision on classification of balance-sheet assets and off-balance sheet items shall not be included in the calculation of the bank's liquidity ratio.

Bank's sight liabilities or liabilities without agreed maturity shall constitute a part of its liabilities as follows: 40% of sight deposits of banks; 20% of sight deposits of other depositors; 10% of savings deposits; 5% of guarantees and other sureties; 20% of unfunded committed irrevocable credit lines. Other Banks liabilities falling due within one month from the date of calculation of liquidity ratio shall be considered bank liabilities with agreed maturity.

The Bank expresses the level of liquidity through the liquidity ratio and narrow liquidity ratio calculated in accordance with the Decision on risks management by banks.

The Bank shall maintain its liquidity level in a way that:

Liquidity ratio:
– equals at least 1.0 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.9 for more than three consecutive business days,
– equals at least 0.8 when calculated for a single business day.

Narrow liquidity ratio:
– equals at least 0.7 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.6 for more than three consecutive business days,
– equals at least 0.5 when calculated for a single business day.

The Management Board shall establish a system of liquidity risk management and supervises that system in accordance with an acceptable risk profile. Above leadership is responsible for the implementation appropriate policies and procedures in line with the strategic direction and a penchant for risk defined by the Board.

Liquidity risk management in the Bank is defined by Policy and Procedure for liquidity. ALCO committee is responsible for managing of liquidity risk. The Bank uses the following tools for measuring and managing liquidity risk:

- liquidity report with the standard analysis of the liquidity gap,
- liquidity ratios and
- narrow liquidity ratio.

The Asset and Liability Committee has special competencies in the liquidity risk management process, and specifically it:

- Monitors any liquidity gaps in the balance sheet items of the Bank from the aspect of their maturity, liquidity and profitability, based on the reports submitted by relevant organizational units,
- Monitors the ratio of interest income and expenditure to balance sheet items, as well as the ratio of interest rates on assets and on liabilities,
- Monitors the profit and loss items and their effect on the balance sheet of the Bank,
- Monitors the structure and scope of off-balance sheet items,
- Analyses the quality of balance sheet assets from the aspect of collectability of receivables,
- Analyses the structure of assets and liabilities from the aspect of the volume and share of the interest-bearing assets/liabilities,
- Analyses the exposure of the Bank portfolio to the credit risk,
- Monitors the realization of planned activities, certain operational indicators, as well as the market position of the Bank,
- Considers the proposals for any new products/projects (as per the applications submitted by the competent organizational units or bodies of the Bank),
- Considers the adequacy of information support for the implementation of activities of asset and liability management,
- Reports to the Board of Directors and proposes measures for the improvement of certain activities in relation to the structure and quality of balance sheet items and for the proactive approach in risk management.

The Liquidity Risk Management Strategy, includes the monitoring of liquidity risk in compliance with the following principles:

- Adjusting the structure of assets and liabilities according to their maturity and currencies,
- Diversification of financing sources as per their maturity and currencies,
- Ensuring access to interbank market of currencies and capital,
- Establishing of adequate liquidity provisions' levels.

Liquidity risk management, as a part of the Bank management, includes the systems for identification, measuring, supervision and control of Bank exposure to liquidity risk. The Bank performs timely identification and quantification of primary sources of liquidity risk for the Bank on transaction level and on the levels of credit and deposit portfolios, under the regular conditions for operation, as well as under conditions of higher risk and market disturbances, as well as on the occasion of approval of new business processes, products and activities.

The independent market risk department performs independent monitoring of liquidity risk exposure by monitoring the compliance with the established system of limits. The Bank manages the liquidity risk under the actual operating conditions, extraordinary conditions and on the occasion of introduction of new business processes, products and activities.

Liquidity ratio	**2015**	**2014**
At 31 December	62.41	-
Average for the period (December)	52.32	-
Maximum for the period (December)	68.39	-
Minimum for the period (December)	20.71	-
Narrow liquidity ratio		
At 31 December	62.41	-
Average for the period (December)	47.72	-
Maximum for the period (December)	63.38	-
Minimum for the period (December)	17.27	-

ii. Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining maturities of the Bank's financial liabilities and financial assets.

31 December 2015 in thousands of dinars	*Note*	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Financial asset by type								
Cash and placements to NBS	*15*	1,147,386	1,147,386	1,147,386				
Loans and advances to banks and fin. institution	*16*	201,783	201,783	201,783	-	-	-	-
Loans and advances to customers	*17*	510,161	513,239	5,860	43,469	165,682	191,885	106,343
		1,859,330	**1,862,408**	**1,355,029**	**43,469**	**165,682**	**191,885**	**106,343**
Financial liability by type								
Deposits and liabilities from banks, other fin. inst. and NBS	*21*	82	82	82				
Deposits from customers	*22*	76,939	76,939	64,805	-	-	-	12,134
Subordinated liabilities	*23*	608,130	608,130	-	-	-	-	608,130
		685,151	**685,151**	**64,887**	**-**	**-**	**-**	**620,264**
Liquidity gap		**1,174,179**	**1,177,257**	**1,290,142**	**43,469**	**165,682**	**191,885**	**(513,921)**

iii. Liquidity reserves

To use Risk liquidity management, the Bank formed liquidity reserves. The bank holds liquidity reserves in the form of cash, equivalents cash and / or placing the National Bank of Serbia.

Liquidity reserves

in thousands of dinars	**2015** Amount	**2014** Amount
Balances with central banks	1,137,006	-
Cash and balances with other banks	207,297	-
Total liquidity reserves	**1,344,303**	**-**

C. Market risk

Market risks – the possibility of occurrence of negative effects on financial result and the capital of the Bank due to changes in the value of balance sheet items and off-balance items of the Bank resulting from the movement of prices on the market.

Include the interest rate risk, foreign exchange risk, price risk of debt and equity securities and commodity risk. The Bank has exposure to interest rate risk and foreign exchange risk.

Interest rate risk is the Bank's exposure risk to the adverse change of interest rates; ALCO committee is responsible for managing of market risks.

The foreign exchange risk is the possibility of occurrence of negative effects on financial result and the capital of the bank due to changes in the foreign exchange rate.

ALCO Committee is responsible for managing market risks.

Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial result and equity of the Bank due to the variations in interest rates. The interest rate risk occurs in cases where there are discrepancies between the items that are subject to interest rate adjustments over a certain period.

The Bank controls the interest rate risk by monitoring the ratio of interest-bearing assets and liabilities for which interest is paid and their share in the total assets, i.e. liabilities, through the management of:

- Repricing risk,
- Risk of economic value of capital,
- Basis risk,
- Optionality, and
- Yield curve risk.

Revenue Forecasts
The Bank manages the interest risk by analysing the liquidity gap between revenues and expenditure.

Economic Value Forecasts
Net present value of capital is the present value of future cash flows. In economic value forecasts, the potential for long-term impact of the interest rates on the capital of the Bank is taken into account.

The interest rate risk occurs due to (1) the different timings of interest rate change and cash flow; (2) changes in the correlation rate between different yield curves that impact the activities of the Bank; (3) changes in the correlation rate in maturity classes, and (4) options related to interest embedded in the products of the Bank.

The risk from the change of interest rates is measured and monitored by analysing the risk of exposure to the changes in interest rates, which shows the structure and the level of interest-sensitive assets and interest-sensitive liabilities in different maturity intervals.

C. Market risk (continued)

ii. Exposure to interest rate risk – Non-trading portfolios

The following is a summary of the Bank's interest rate gap position of financial assets and financial liabilities of the Bank, from the interest rate perspective, relating on non-trading portfolios.

31 December 2015 *In thousands of dinars*	Note	Carrying amount	Less than 1 month	1-3 month	3–12 months	1–5 years	More than 5 years	Non interest bearing*
Cash and placements to NBS	15	1,147,386	1,033,103	-	-	-	-	114,283
Loans and advances to banks and fin. instit.	16	201,783	-	-	-	-	-	201,783
Loans and advances to customers	17	510,161	362,446	33,333	116,667	-	-	(2,285)
		1,859,330	**1,395,549**	**33,333**	**116,667**	**-**	**-**	**313,781**
Deposits and liabilities from banks, other fin. inst. and NBS	21	82	-	-	-	-	-	82
Deposits from customers	22	76,939	-	-	-	-	-	76,939
Subordinated liabilities	23	608,130	-	-	608,130	-	-	-
		685,151	**-**	**-**	**608,130**	**-**	**-**	**77,021**
Interest rate risk gap		**1,174,179**	**1,395,549**	**33,333**	**(491,463)**	**-**	**-**	**236,760**

* Negative amount because accrued liabilities (disbursement fee)

The Bank is exposed to the changes in levels of market interest rates that impact its financial position and cash flows. As the result of these changes, the interest rate margin can increase or decrease.

Interest rates are based on market interest rates and the Bank performs adjustments of interest rates. The interest rate risk management activity is aimed at achieving optimum net income from interest, maintenance of market interest rate on a consistent level, in compliance with the business strategy of the Bank.

ALCO manages the liquidity gaps of assets and liabilities based on: the macroeconomic analyses and forecasts; forecasts of conditions for achieving liquidity, as well as based on the analysis and forecasts of the market trends in interest rates.

Interest rate risk is the adverse change in the price of active interest rates compared against the level of passive interest rates, as well as the potential for the reduction of the optimum difference between the average active and passive interest rates.

C. Market risk (continued)
ii. Exposure to interest rate risk -Non-trading portfolio (continued)

The table below shows the impact of the effect of potential changes interest rate on income of the Bank as at 31 December 2015.

The effects of potential changes in interest rates are related to interest bearing assets and liabilities in the balance sheet.

Risk calculation illustrates the effect of the interest rate on interest-sensitive assets and passive. The scenario includes a 50BP parallel rise and fall and 100BP parallel growth and falling interest rates

	Effect on interest earning (next 1 Year) Thousands of dinars					
in thousands dinars	Increasing of 50 BP			Decreasing of 50 BP		
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	5,006	(170)	5,176	(5,006)	170	(5,176)

	Effect on interest earning (next 1 Year) Thousands of dinars					
	Increasing of 100 BP			Decreasing of 100 BP		
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	10,011	(340)	10,351	(10,011)	340	(10,351)

	Effect on economic value of equity in thousands of dinars					
	Interest increase 50 BP			Interest decreasing of 50 b.p.		
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	(466)	(1,005)	539	466	1,005	(539)

	Effect on economic value of equity					
	Increasing of 100BP Interest increase			Decreasing of 100BP Interest decrease		
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	(932)	(2,009)	1,078	932	2009	(1,078)

C. Market risk (continued)

iii. Exposure to currency risks

Foreign currency risk is the risk from the negative effects of adverse changes in foreign exchange rates to the financial result and equity of the Bank. It pertains to the impact of the inauspicious trends in foreign exchange rates on the value of open foreign currency position.

Foreign Currency Position:

31 December 2015 *In thousands of dinars*	**EUR** (including EUR indexed)	**USD**	**RSD**	**Total**
Cash and placements to NBS	68,970	1,068	1,077,348	**1,147,386**
Loans and advances to banks and fin. instit.	193,675	8,108	-	**201,783**
Loans and advances to customers	362,975	-	147,186	**510,161**
Intangible assets	-	-	217,825	**217,825**
Property, plant and equipment	-	-	163,370	**163,370**
Other assets	-	-	8,202	**8,202**
Total assets	625,620	9,176	1,613,931	**2,248,727**
Deposits and liabilities from banks, other fin. inst and NBS	53	-	29	**82**
Deposits from customers	13,015	7,754	56,170	**76,939**
Subordinated liabilities	608,130	-	-	**608,130**
Provisions	-	-	2,892	**2,892**
Deferred tax liabilities	-	-	11,910	**11,910**
Other liabilities	-	-	19,232	**19,232**
Capital	-	-	1,529,542	**1,529,542**
Total liabilities	621,198	7,754	1,619,775	**2,248,727**
Financial instruments-off balance				
Net foreign currency position 31.12.2015	**4,422**	**1,422**	**(5,844)**	

With the aim to protect against the foreign exchange risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis, implements the policy of low exposure to the foreign exchange risk. The Asset Management Division monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Board of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent market risk department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Foreign exchange risk management is supplemented with the monitoring of:
- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

C. Market risk (continued)

iii. Exposure to currency risks

In thousands of dinars	2015 EUR	2015 USD
Net foreign currency exposure:		
USD		1,422
EUR	4,422	

The effect of increasing the rate of 10% on net income

In thousands of dinars	EUR	USD
Net foreign currency exposure:		
USD		213
EUR	663	

The effect of reducing the rate of 10% on net income

In thousands of dinars	EUR	USD
Net foreign currency exposure:		
USD		(213)
EUR	(663)	

The effect of growth rate of 10% of the economic value of capital: 0.05%.
The effect of reducing rate of 10% of the economic value of capital: (0.05%).

iv. Other market risks

Other market risks include the price risk on debt securities, price risk on equity securities and – the commodity risk, in compliance with the Decision regulating the Bank's capital adequacy.

During 2015, given the nature of its operations and the fact that it had no items in the trading book, the Bank was not exposed to any other market risks.

Once it introduces products exposed to this kind of risk, the Bank shall previously provide the prerequisites for such products (HR-technical equipment, written procedures for daily monitoring of trading book items, procedures for measuring of capital requirements for these risks, and item valuation methods in financial instruments included in calculation and subject to prior approval of the National Bank of Serbia, etc.) subject to consent of the Bank's competent boards.

Operational risk

The operational risk is the risk of negative effects on the Bank's financial result and capital due to failures in employees' performance, inadequate internal procedures and processes, inadequacy of information and other systems management in the Bank, and any other unforeseeable external events.

In the operational risk management, the Bank implements quantitative and qualitative measures based on collection of data on losses arising from operational risk, per categories defined according to sources of losses, and based on adopted internal acts.

The role of the operational risk management is to identify, estimate, control and mitigate the possibilities for the arising and impact of operational risks and losses. The Bank cannot eliminate all operational risks, but it may use the process of operational losses recording and analysis to identify flaws in its processes, products and procedures, and to improve them in order to reduce the frequency and negative effects of operational losses on Bank's operations and profitability. The Bank manages the operational risk so as to minimize the effects of adverse and unsuccessful internal processes, people and systems, or external events, on the Bank's financial result.

Database on events which gave rise or might have given rise to a loss, according to the prescribed limit, as a consequence of operational risk per categories defined according to sources of losses, shall be filled by entering the data based on identified risks per types of operations, by persons in charge of operational risk management.

Bank's exposure to operational risks shall be particularly attentively treated when introducing new products, activities, lines of business or systems, when required analyses are to be made by organisational units which participate in introduction of new products, activities, lines of business or system, and the Risk Management Department which is directly in charge of operational risk management.

Bank's investment risks

The Bank's investment risks include the risks of investing in capital of other legal entities and fixed assets. In compliance with the regulations of the National Bank of Serbia, the amount of Bank's investments and the amount of regulatory capital are monitored, to ensure that the Bank's investment in any non-financial sector entity does not exceed 10% Bank's capital, and that the Bank's total investments in non-financial sector entities and in Bank's fixed assets do not exceed 60% Bank's capital. The exposure to the risk of Bank's investments in other legal entities and fixed assets is monitored by way of informing the organisational unit or body of the Bank in charge of fixed assets procurement and investments in legal entities of the current status of exposure and amount of capital, in order to act timely in accordance with the set limits.

In 2015, the Bank took care of compliance of investment risks and conducted appropriate activities to ensure the compliance of investments with the indicators stipulated by the National Bank of Serbia. Additional monitoring of the Bank's investment risks indicators is performed in risk management division, finance division and compliance control functions, reported to the Bank's management bodies. The Bank has no items under investment property.

Exposure risk

The Bank's exposure risks include the risks of Bank's exposure to a single entity or to a group of related entities, as well as the risks of Bank's exposure to an entity related to the Bank. Monitoring of the Bank's exposure to the risk of exposure to a single entity or a group of related entities, and to entities related to the Bank, is performed at the moment of a request initiation, at the moment of financing, and after completed financing. Monitoring of Bank's exposure to this risk is a mandatory part of procedures in the investment approval phase, meaning that the board which approves of the investment avails with information concerning the total level of Bank's exposure to a client or to a group of related entities against the Bank's total capital.

In accordance with regulations and Bank's internal acts, the competent board issues approval on Bank's exposure to the exposure risk per individual clients or per groups of related entities and entities related to the Bank. Additional monitoring of the Bank's exposure indicators is performed in risk management division and finance division, with reporting to the Bank's management bodies.

Country risk

The risk related to the country of origin of the entity to which the Bank is exposed implies negative effects which might influence its financial result and capital, due to Bank's inability to collect debts from such entity for reasons resulting from political, economic or social conditions in such entity's country of origin.

The Bank's placements are mostly to customers from the Republic of Serbia, while being exposed to the country risk mostly concerning the part of funds held at times on accounts with foreign banks. The Bank's policy of country risk management is to continuously monitor the exposure to the country risk against adopted limits, defined according to the country rating as determined by competent institutions (OECD), with regular reporting of existing exposures to the management bodies.

D. Capital management

i. Regulatory capital

in thousands of dinars	*Note*	**Basel II 2015**
Ordinary share capital	26	1,790,700
Retained earnings		(261,158)
– Intangible assets	18	(217,825)
–Required reserve for estimated losses on balance sheet assets and off-balance sheet items	10	(24,772)
Total share capital		1,286,945
Qualifying subordinated liabilities	23	608,130
Total regulatory capital		1,895,075

The bank continuously manages the capital in order to:

- ensure compliance with capital requirements defined by the National Bank of Serbia (NBS),
- maintain an adequate level of capital for continuous operation by the "going concern" principle,
- maintain the capital base which enables coverage of risks it is exposed to while ensuring further business development.

Capital adequacy, as well as the use of the Bank's capital is monitored on monthly basis by the Bank management. The Bank manages its capital structure and may make adjustments in the light of changes in economic conditions and risk characteristics inherent in its activities.

The National Bank of Serbia has defined the following limits for capital:

- Minimum monetary amount of capital of EUR 10 million; and
- Capital adequacy ratio not lower than 12%.

In accordance with the Decision on Capital Adequacy of Banks, the methodology of capital adequacy calculation has been determined.

Accordingly, the Bank's total regulatory capital consists of the core capital and supplementary capital and deductible items:

- The core capital is comprised of: share capital for ordinary shares, share issuing premiums, reserves from profit and bank's profit, and the deductibles from the core capital are: losses from previous years,
- Supplementary capital is comprised of: part of the bank's positive revaluation reserves,
- Deductibles from the bank capital are the shortfalls in impairments and provisions against the special reserve for expected losses.
- Risk-weighted balance sheet and off-balance sheet assets are determined in compliance with prescribed risk weights for all types of assets. The value the items of balance sheet assets, for the purpose of calculation of credit risk-weighted assets, equals the gross book value of such items minus the impairment and required reserve for estimated losses. The value of off-balance sheet items, for calculation of credit risk-weighted assets, equals the gross book value of such items minus provisions for losses in balance sheet assets and required reserve for estimated losses, multiplied by the following conversion factors:
    1) 0% – if an off-balance sheet item is classified into low risk category;
    2) 20% – if an off-balance sheet item is classified into moderate risk category;
    3) 50% – if an off-balance sheet item is classified into medium risk category;
    4) 100% – if an off-balance sheet item is classified into high risk category.

The Bank classifies the exposures from the banking book, exposures from the trading book for which it is obliged to calculate the capital requirements of counterparty risks, and other exposures from the trading book, provided that the conditions specified in the a/m Decision are fulfilled, into one of the following categories, and thereby estimates the risk of:

1) Exposure to countries and central banks;
2) Exposure to territorial autonomies and local self-government units;
3) Exposure to public administrative bodies;
4) Exposure to international development banks;
5) Exposure to international organizations;
6) Exposure to banks;
7) Exposure to corporates;
8) Exposure to natural persons;
9) Exposure secured by mortgage on real estate property;
10) Past due receivables;
11) High-risk exposures;
12) Exposure based on covered bonds;
13) Exposure from investments in open-end investment funds;
14) Other exposures.

The Bank has established and continuously developed the process of internal capital adequacy assessment.

6. Fair values of financial instruments

A. Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and liabilities

The Bank's business policy is to disclose information on the fair value of assets and liabilities when there is official market information and when the fair value significantly differs from the book value. During 2015, the Bank did not have any items under securities. The Bank is not significantly exposed to the risk of changes in the fair value.

The market price, provided that there is an active market, is the best proof of a financial instrument's fair value. However, market prices are not available for a number of Bank's financial assets and liabilities. Therefore, when market prices of financial instruments are unavailable, the fair value of assets and liabilities is estimated using the present value or other valuation techniques based on currently prevailing market conditions.

In the Republic of Serbia, the market experience is insufficient, the same as the stability and liquidity in purchase and sale of debts and other financial assets and liabilities, since the official market information is not available at all times. Consequently, the fair value is impossible to be reliably determined in the absence of an active market.

The following methods and assumptions were used for the estimate of the fair value of Bank's financial instruments on the day of 31 December 2015:

– The fair values of cash and cash equivalents, short-term deposits, other loans and advances and other assets, transaction deposits, trade payables and other short-term liabilities, match their respective book values primarily due to short-term maturity of such financial instruments.

– The Bank's financial instruments carried at amortized cost generally mature in short-term, using floating interest rate which reflects current market conditions. Accordingly, the Bank finds that the values at which the specified financial instruments are carried match their respective market values.

– The fair value of loans and investments in customers equals their book value, reduced by adjustment for impairment. In 2015, the Bank has just started the loan activities and has no impaired loans, and consequently no provisions for doubtful debts.

– Deposits of banks and customers are mostly demand deposits or short-term deposits with floating interest rates, therefore the Bank's management finds that their values recognized in the balance sheet match their market values.

In the opinion of the Bank's management, the amounts in the enclosed financial statements reflect the value which is, under the circumstances, the most credible and useful for the reporting purposes.

E. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments

31 December 2015 *In thousands of RSD*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and placements to NBS	-	1,147,386	-	1,147,386	1,147,386
Loans and receivables from banks and other financial institutions	-	201,783	-	201,783	201,783
Loans and advances to customers	-	-	488,967	488,967	510,161
Held-to-maturity investment securities	-	-	-	-	-
Liabilities					
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	82	82	82
Deposits from customers	-	-	75,599	75,599	76,939
Debt securities issued	-	-	-	-	-
Subordinated liabilities	-	-	578,789	578,789	608,130

As at the balance sheet date, the Bank did not have financial instruments measured at fair value..

7. Net interest income

In thousands of dinars	5/2 – 31/12/2015	2014
a) Interest income		
Deposited excess liquidity with NBS	7,193	-
Mandatory reserves in dinars with NBS	1	-
Short-term loans to corporates	1,669	-
Long-term loans to corporates	562	-
Total interest income	**9,425**	-
б) Interest expense		
Foreign currency accounts with NBS	(91)	-
Subordinated liabilities of foreign legal entities, in foreign currency	(453)	-
Short-term special purpose deposits of legal entities in dinars	(52)	-
Total interest expense	**(596)**	-
Net interest income	**8,829**	-

8. Net fee and commission income

In thousands of dinars	5/2 – 31/12/2015	2014
a) Fee and commission income		
Fees and commissions on guarantees	720	-
Income from fees from non-residents	431	,
Fees from legal entities from domestic payment operations	237	-
Other	12	
Total fee and commission income	**1,400**	-
b) Fee and commission expenses		
Fees and commissions to NBS	(1,054)	-
Fees and commissions to other banks	(42)	-
Other	(10)	
Total fee and commission expenses	**(1,106)**	-
Net fee and commission income	**294**	-

9. Net trading income

In thousands of dinars	5/2 – 31/12/2015	2014
Income from foreign exchange differences	32,680	-
Income from effects of currency clause	690	-
Trading income	**33,370**	**-**
Expenses in foreign exchange differences	(27,434)	-
Expenses on effects of currency clause	(66)	-
Trading expenses	**(27,500)**	**-**
Net trading income	**5,870**	**-**

Net income from foreign exchange differences primarily relates to positive exchange differences on conversion of the initial capital of the Bank due to changes in the exchange rate between the date of payment of the initial capital and the conversion date and payment dinar equivalent to the giro account of the Bank.

10. Net expenses for impaired financial assets and credit risk-weighted off-balance sheet items

a) Impairment costs

The Bank just started its loan activity in 2015 and has no impaired loans. Accordingly, the Bank did not have any expenses for impaired financial assets and credit risk-weighted off-balance sheet items.

b) Special reserve for estimated losses

Based on categorization of placements determined in conformity with the regulations of the National Bank of Serbia on the day of 31 December 2015, the required reserve for estimated losses based on total exposure of the Bank to the credit risk is assessed:

	In thousands of dinars For the year ending on 31 December	
	2015	**2014**
Required reserves from gains for estimated losses in balance-sheet assets and off-balance sheet items:		
- balance sheet placements	16,990	-
- off-balance sheet items	7,782	-
	24,772	**-**

As at 31 December 2015, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to 24,772 thousand dinars.

11. Personnel expenses

In thousands of dinars	5/2 – 31/12/2015	2014
Wages and salaries	(115,870)	-
Social security contributions	(9,824)	-
BoD members remuneration	(8,883)	-
Personnel expenses	**(134,577)**	**-**

12. Depreciation/amortization expenses

	5/2 – 31/12/2015	2014
In thousands of dinars	(10,300)	-
Depreciation of real estate property, plants and equipment	(10,787)	-
Amortization of intangible assets	**(21,087)**	-

13. Other expenses

In thousands of dinars	5/2 – 31/12/2015	2014
Facility expenses	(43,065)	-
ICT expenses	(14,451)	-
Professional services	(21,979)	-
Marketing	(12,931)	-
Insurance expenses	(735)	-
Deposit insurance agency	(3,635)	-
Other administrative expenses	(11,780)	-
Total other expenses	**(108,576)**	**-**

The Bank pays the rent to legal entities for its business premises under concluded lease agreements. The agreed lease periods are five years. The rent includes currency clause, and it is payable on monthly basis. Costs of business premises lease in 2015 amounted to the total of 29,611 thousand dinars. In this category of costs, there are also the costs of maintenance of the premises (as defined in the Lease Agreement) as well as utility costs and all other expenses that are directly related to the use of the premises of the Bank.

Marketing costs are comprised of printing of promotional products, designing of marketing concepts and alike, at the total amount of 12,931 thousand dinars. Insurance costs include, apart from physical security of the buildings, the employees and deposits insurance, in conformity with the Law on Deposit Insurance. Total costs of deposits insurance for 2015 amount to 3,635 thousand dinars.

Total costs of information technology in 2015 amounted to 14,451 thousand, which include maintenance and development costs of software and hardware, telecommunications costs, internet costs, etc.

16. Income Tax

a) Income tax components

	In thousands of dinars 31 December 2015	31 December 2014
Deferred tax income/(expense) of the period	(11,910)	-
	(11,910)	**-**

b) Reconciliation of income tax and the product of loss before tax multiplied by applicable tax rate

	In thousands of dinars 31 December 2015	31 December 2014
Profit/(Loss) before tax	(249,248)	-
Tax calculation at 15% rate	(37,387)	-
Recognized tax expenses in current year	47,691	-
Tax effects of expenses recognized in tax balance	(10,304)	-
Effect of changes in deferred tax assets and liabilities	(11,910)	-
Deferred tax liabilities	**(11,910)**	-
Effective tax rate	***4.78%***	**-**

Deferred tax liabilities relating to temporary differences between the carrying value of fixed assets and intangible assets and their tax base, due to the application of different rates of depreciation and revaluation of fixed assets. On balance the ledgers were recorded deferred tax liabilities in the amount of 11,910 thousand dinars.

d) Overview of tax loss carryforwards from preceding periods

Year of loss	Amount of loss	Amount of used loss	Remaining carryforward loss	Carryforward year
2015	317,942	-	317,942	2020
Total	**317,942**	**-**	**317,942**	

According to the Corporate Income Tax Law of 27 March 2010, the time limit for tax loss carryforward is shortened from 10 to 5 years. The Bank did not recognize the carried forward tax losses as deferred tax assets on 31 December 2015, due to uncertainty of income earning in the following years against which these losses could be used.

e) Deferred tax components

On the day of 31 December 2015, deferred taxes were calculated and corresponding bookings were entered. The deferred tax components are as follows:

(377,137)	Book value of other assets subject to depreciation
295,262	Net book value according to tax regulations
(81,875)	**Taxable temporary difference**
(12,281)	**Deferred tax liability at 15% rate**
2,474	Provisions for retirement pay
371	**Deferred tax assets at 15% rate, booked**

Summary of deferred taxes

(12,281)	Deferred tax liabilities
371	Deferred tax assets
(11,910)	**Net deferred tax liabilities**

Recognized in books of accounts

(12,281)	Deferred tax liabilities
371	Deferred tax assets on provisions for retirement
(11,910)	Closing balance on 31 December

15. Cash and cash equivalents

In thousands of dinars	**31/12/2015**	**31/12/2014**
Gyro account	71,728	-
Cash on hand in dinars	5,358	-
Deposited excess liquidity with NBS	1,000,261	
RSD cash	**1,077,347**	-
Cash on hand in foreign currency	5,021	-
Mandatory reserve in foreign currency with NBS	65,018	-
Foreign currency cash	**70,039**	-
Balance on 31 December	**1,147,386**	-

The dinar mandatory reserve is the minimum dinar reserve allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015), stipulating that banks shall calculate the mandatory reserve at 5% rate on the dinar base portion comprised of liabilities maturing in less than two years and/or 730 days, and 0% on the dinar base portion comprised of liabilities maturing in more than two years and/or 730 days, on the amount of daily average of reservable dinar liabilities in preceding calendar month, allocated to their respective gyro accounts with the National Bank of Serbia.

The dinar base for calculation of the mandatory reserve is comprised of the daily average of reservable dinar liabilities in preceding calendar month, excluding the currency clause-indexed dinar liabilities.

Dinar liabilities are comprised of liabilities in respect of dinar deposits, credits and securities, and other dinar liabilities excluding dinar deposits received under transactions performed by the bank on behalf and for the account of third parties, that are not in excess of the amount of investment made from such deposits.

The National Bank of Serbia pays interest to banks on the amount of average daily balance of allocated dinar mandatory reserve in the accounting period not exceeding the amount of gross calculated dinar mandatory reserve, for all days of the accounting period – at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the implementation of monetary policy.

The Bank is obliged to maintain throughout an accounting period an average daily balance of allocated dinar mandatory reserve at the amount of calculated dinar mandatory reserve. The calculated dinar mandatory reserve for December 2015 was 32,842 thousand dinars and was compliant with the aforementioned Decision of the National Bank of Serbia. The interest rate on the amount of allocated dinar mandatory reserve during 2015, on annual level, amounted to:

- from January to the end of December - 2.50%;
- in October – 2.00% and
- in November and December – 1.75%.

The required foreign currency reserve is the minimum reserve in foreign currency allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette" of the Republic of Serbia nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012,107/. 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015) stipulating that banks shall calculate the foreign currency mandatory reserve at the rate of:

- 20% – on the foreign currency base portion comprised of liabilities maturing in less than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed dinar liabilities maturing in less than two years and/or 730 days,
- 13% – on the foreign currency base portion comprised of liabilities maturing in more than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed dinar liabilities maturing in more than two years and/or 730 days.

The Executive Board of the National Bank of Serbia, at its session held on 10 September 2015, adopted the *Decision on Amending the Decision on Bank's Mandatory Reserve with the National Bank of Serbia* whereby the foreign currency mandatory reserve rates are reduced by one percentage point per each of the forthcoming six accounting periods. That meant that starting from calculation on 17 February 2016 (according to the average balance for January 2015), the respective rates of the foreign currency mandatory reserve on liabilities maturing in less than two years would be 20% instead of 26%, and on those maturing in more than two years 19% instead of 13%.

The above rates changed during 2015 by the following schedule:

- According to the average balance of deposits for **August 2015** (calculation on 17 September 2015) – at the rate of **25%**, for maturity up to 730 days), and **18%**, for maturity over 730 days),

- According to the average balance of deposits for **September 2015** (calculation on 16 October 2015)- at the rate of **24%**, for maturity up to 730 days) and **17%**, for maturity over 730 days),

- According to the average balance of deposits for **October 2015** (calculation on 17 November 2015)- at the rate of **23%**, for maturity up to 730 days) and **16%**, for maturity over 730 days),

- According to the average balance of deposits for **November 2015** (calculation on 17 December 2015)- at the rate of **22%,** for maturity up to 730 days) and **15%**, for maturity over 730 days),

- According to the average balance of deposits for **December 2015 -** (calculation on 15 January 2016) at the rate of **21%**, for maturity up to 730 days) and **14%**, for maturity over 730 days).

Foreign currency liabilities are the liabilities in respect of foreign currency deposits, credits and securities and other foreign currency liabilities, as well as deposits, credits and other foreign currency funds received from abroad under transactions performed by the bank on behalf and for the account of third parties.

The bank allocates the mandatory reserve calculated on the foreign currency base to the foreign currency account of the National Bank of Serbia. The bank is obliged to maintain throughout an accounting period the average daily balance of allocated foreign currency mandatory reserve at the amount of calculated foreign currency mandatory reserve. The National Bank of Serbia does not pay any interests on the amount of achieved average balance of allocated foreign currency reserve. The foreign currency base for calculation of the mandatory reserve is comprised of the daily average reservable balance of foreign currency liabilities in the preceding calendar month and the average daily reservable balance of currency clause-indexed dinar liabilities in the preceding calendar month.

The bank which achieved the average daily balance of allocated foreign currency mandatory reserve at the amount in excess of the calculated one – pays to the National Bank of Serbia the interest on the amount of difference between the achieved daily balance of allocated foreign currency mandatory reserve and calculated foreign currency mandatory reserve, for all days of the accounting period, at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the procedure of implementing the monetary policy. Daily average balance of allocated foreign currency mandatory reserve in the accounting period exceeds the calculated foreign currency mandatory reserve in the period, if it amounts to more than 100.49% of the calculated foreign currency mandatory reserve for the period.

On the day of 31 December 2015, the Bank's foreign currency mandatory reserve was compliant with the a/m Decision of the National Bank of Serbia.

An overview of changes in foreign currency mandatory reserve rates per accounting periods in 2015 is provided here below:

<table>
<tr><th rowspan="2">Initial rate validity period</th><th colspan="2">Foreign currency MR rates</th><th rowspan="2">Notes</th></tr>
<tr><th>General rate</th><th>Special rates</th></tr>
<tr><td rowspan="2">18/12/2014-17/01/2015</td><td>27%</td><td rowspan="2">-</td><td>27% on liabilities maturing in less than two years</td></tr>
<tr><td>20%</td><td>20% on liabilities maturing in more than two years</td></tr>
<tr><td rowspan="2">18/01/2015-17/02/2015</td><td>26%</td><td rowspan="2">-</td><td>26% on liabilities maturing in less than two years</td></tr>
<tr><td>19%</td><td>19% on liabilities maturing in more than two years</td></tr>
<tr><td rowspan="2">18/09/2015-17/10/2015</td><td>25%</td><td rowspan="2">-</td><td>25% on liabilities maturing in less than two years</td></tr>
<tr><td>18%</td><td>18% on liabilities maturing in more than two years</td></tr>
<tr><td rowspan="2">18/10/2015-17/11/2015</td><td>24%</td><td rowspan="2">-</td><td>24% on liabilities maturing in less than two years</td></tr>
<tr><td>17%</td><td>17% on liabilities maturing in more than two years</td></tr>
<tr><td rowspan="2">18/11/2015-17/12/2015</td><td>23%</td><td rowspan="2">-</td><td>23% on liabilities maturing in less than two years</td></tr>
<tr><td>16%</td><td>16% on liabilities maturing in more than two years</td></tr>
<tr><td rowspan="2">18/12/2015-17/01/2016</td><td>22%</td><td rowspan="2">-</td><td>22% on liabilities maturing in less than two years</td></tr>
<tr><td>15%</td><td>15% on liabilities maturing in more than two years</td></tr>
<tr><td rowspan="3">18/01/2016-17/02/2016</td><td rowspan="3">21%
14%</td><td rowspan="3">100%</td><td>21% on liabilities maturing in less than two years</td></tr>
<tr><td>14% on liabilities maturing in more than two years</td></tr>
<tr><td>100% on foreign currency base portion comprised of foreign currency clause-indexed dinar liabilities maturing in less than two years and more than two years</td></tr>
</table>

16. Loans and advances to banks and other financial institutions

In thousands of dinars	**31/12/2015**	**31/12/2014**
Regular foreign currency accounts in foreign banks	196,918	-
Cash accounts with the Central Securities Register	4,865	-
Balance on 31 December	**201,783**	**-**

17. Loans and advances to customers

In thousands of dinars	**31/12/2015**	**31/12/2014**
Receivables from loans	512,445	-
Receivables from interests and fees	793	-
Total	**513,238**	**-**
Deferred loan origination fee	(3,077)	-
Impairment provision for loans and advances to customers	-	-
Balance on 31 December	**510,161**	**-**

Structure of loans and advances to customers

In thousands of dinars	**31/12/2015**	**31/12/2014**
Interests and fees	**793**	**-**
Short-term placements	**124,000**	**-**
In dinars and with currency clause	124,000	-
Long-term placements	**388,445**	**-**
In dinars and with currency clause	388,445	-
Gross placements to customers	**513,238**	**-**
Deferred loan origination fee		
Short-term placements	**(469)**	**-**
In dinars and with currency clause	(469)	-
Long-term placements	**(2,608)**	**-**
In dinars and with currency clause	(2,608)	-
Total:	**(3,077)**	**-**
Interests and fees	**793**	**-**
Short-term placements	**123,531**	**-**
In dinars and with currency clause	123,531	-
Long-term placements	**385,837**	**-**
In dinars and with currency clause	385,837	-
Net placements to customers:	**510,161**	**-**

b) Loans and advances to customers

The Bank only started to deal with loan activities in 2015. In subject period, the approved loans to legal entities were long-term loans with currency clause, for working capital and investment loans, with interest rate ranging from 2.30% to 4.50% on annual level. Legal entities were granted also short-term revolving dinar loans, and the interest rates ranged from 5% to 7.50% p.a.

18. Intangible assets and goodwill

In thousands of dinars	Gross	Amortization	Net
Intangible assets in progress	2,957	-	2,957
Licenses and software	225,655	(10,787)	214,868
Other intangible assets	-	-	-
Balance on 31 December 2015	**228,612**	**(10,787)**	**217,825**

Changes in intangible assets during 2015

In thousands of dinars	Intangible assets in progress	Licenses and software	Other intangible assets	Total
Purchase value				
Balance on 5 February 2015	-	-	-	-
Direct increments	**2,957**	**225,655**	-	**228,612**
Balance on 31 December	2,957	225,655	-	228,612
Impairment				
Balance on 5 February 2015	-	-	-	-
Calculated amortization	-	(10,787)	-	(10,787)
Balance on 31 December	-	**(10,787)**	-	**(10,787)**
Present value on 31 December 2015	**2,957**	**214,868**	-	**217,825**

The Bank does not possess any intangible assets estimated to have an unlimited useful life on the day of 31 December 2015. Further to the estimate of the Bank's management, on the day of 31 December 2015 there are no indications that the value of intangible assets is impaired.

19. Property and equipment

In thousands of dinars	Gross	Depreciation	Net
Investments in fixed assets of other legal entities	68,128	(4,245)	63,883
Equipment	104,441	(6,055)	98,386
Fixed assets in progress	1,101	-	1,101
Balance on 31 December	**173,670**	**(10,300)**	**163,370**

Changes in fixed assets during 2015

In thousands of dinars	Invest.in fixed assets of other legal entities	Equipment	Fixed assets in progress	Total
Purchase value				
Balance on 5 February 2015	-	-	-	-
Direct increments	68,128	104,441	1,101	173,670
Revaluation	-	-	-	-
Transfer from/to	-	-	-	-
Disposal, sale and other decrease	-	-	-	-
Balance on 31 December	68,128	104,441	1,101	173,670
Impairment provision				
Balance on 5 February 2015	-	-	-	-
Calculated depreciation	(4,245)	(6,055)	-	(10,300)
Disposal and sale	-	-	-	-
Balance on 31 December	**(4,245)**	**(6,055)**	**-**	**(10,300)**
Present value on 31 December 2015	**63,883**	**98,386**	**1,101**	**163,370**

The Bank does not possess any real estate property, plants and equipment estimated to have an unlimited useful life. On the day of 31 December 2015, the Bank is in possession of the assets it avails with and has no encumbrance on property. Further to the estimate of the Bank's management, on the day of 31 December 2015 there are no indications that the value of fixed assets and investments in leased business premises is impaired.

20. Other assets

Other assets include:

In thousands of dinars	31/12/2015	31/12/2014
Receivables from advances paid for current assets	655	-
Receivables from advances paid for fixed assets	6,628	-
Prepaid costs	861	-
Petty inventory in use	367	-
Other	58	-
Other assets	**8,569**	-
Impairment of other assets	(367)	-
Balance on 31 December	**8,202**	-

21. Deposits from banks

In thousands of dinars	31/12/2015	31/12/2014
Liabilities for fees and commissions to NBS	64	-
Liabilities for fees and commissions to other banks etc.	18	-
Balance on 31 December	**82**	-

22. Deposits from customers

In thousands of dinars	31/12/2015	31/12/2014
Corporates		
Transaction deposits in dinars	56,168	-
Long-term deposits on loans in dinars	12,163	-
Transaction deposits in foreign currency	8,374	-
Other liabilities in foreign currency	234	-
Balance on 31 December	**76,939**	-

23. Subordinated liabilities

Loans received in foreign currency

The structure of received loans per creditors, with balance on 31 December 2015, is presented in the following table:

Creditor name	Agreed amount	Currency	Outstanding balance on 31 Dec. 2015 in EUR	Interest rate p.a.	Maturity date	Balance on 31 Dec 2015 in 000 RSD
AFLAJ INVESTMENT LLC Abu Dhabi	5,000,000	EUR	5,000,000	0.498%	22/10/2025	608,130

24. Provisions

In thousands of dinars	31/12/2015	31/12/2014
Provisions for retirement pay, in accordance with IAS 19	2,474	-
Provisions for employees' annual leave, in accordance with IAS 19	418	-
	2,892	-

The trends in provisions for potential losses in retirement pays and other purposes are presented in the above table. Provisions for retirement pay to employees are formed based on actuarial valuation, with balance on the balance sheet date, and these are recognized in the amount of the present value of expected future payments.

In compliance with its Rules of Procedure, the Bank is obliged to pay out retirement pays at the amount of two average gross salaries in the Republic of Serbia in the month preceding the month of payment, as per latest published information of the republic statistical authority.

The value of expected outflows was assessed using the average monthly salary in the Republic of Serbia in December 2015 and 8% discount rate which represents an adequate rate according to IAS 19 "Employee Benefits" in the absence of a developed market of high-quality corporate bonds, which is the return on 10-year treasury bonds of the Republic of Serbia. The provision is assessed based on the Bank's Rules of Procedure and an assumed average salary increase at the rate of 4% p.a, which is equal to the target inflation rate projected by NBS.

25. Other liabilities

In thousands of dinars	**31/12/2015**	**31/12/2014**
Suppliers	16,784	-
Guarantee commissions	285	-
Prepaid expenses for legal fees	1,940	-
Other	223	-
	19,232	-

26. Capital and reserves

On the day of 31 December 2015, the subscribed paid-in share capital of the Bank consisted of 1,790,700 ordinary shares with par value of 1 thousand dinars.

Shareholder Structure

Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, the Netherlands, is 100% shareholder of the Bank on 31 December 2015.

	31/12/2015	
Shareholder name	**No.of shares**	**% ownership**
Duingraaf Financial Investments B.V., Amsterdam, The Netherlands	1,790,700	100%

The share capital structure is presented in the table below:

In thousands of dinars

	2015	
	Amount	**In %**
Ordinary shares	1,790,700	100.00
Balance on 31 December	1,790,700	100.00

Provisions for estimated losses

The provisions for estimated credit risk losses contained in the Bank's credit portfolio are calculated in accordance with the Decision of the National Bank of Serbia on Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("Official Gazette of RS" nos. 94/2011, 57/2012, 123/, 113/2013 and 135/2014 and 25/2015 and 38/2015).

On the day of 31 December 2015, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to 24,772 thousand dinars.

Capital adequacy and Bank's business indicators stipulated under the Law on Banks

The Bank is obliged to harmonize the scope and structure of its business and risk-weighted placements with business indicators stipulated under the Law on Banks and relevant decisions of the National Bank of Serbia made pursuant to the named Law.
The achieved business indicators of the Bank on 31 December 2015 were as follows:

1. Capital adequacy indicators

in thousands of dinars	31/12/2015	31/12/2014
Core capital	1,286,945	-
Supplementary capital	608,130	-
Deductibles from capital	-	-
Capital	1,895,075	-
Credit risk-weighted assets, exposure to derivatives non-tradable at stock market and capital requirement related to foreign currency risk	850.500	-
Capital adequacy indicator	**222,82%**	-

2. Business indicators	Prescribed	Achieved
1. Capital	Minimum EUR 10 million	15,581,151
2. Capital adequacy	Minimum 12%	222,82%
3. Bank's investments	Maximum 60%	8.62%
4. Sum of large exposures	Maximum 400%	10.39%
5. Average monthly liquidity indicators (December 2015)	Minimum 1	52.32
6. Foreign currency risk ratio	Maximum 20%	0.40%
7. Exposure of the Bank to a single entity or a group of related entities	Maximum 25%	10.39%

Except for the amount of exposure on the nostro account with the correspondent foreign bank BANQUE INTERNATIONALE A LUXEMBOURG SA which amounts to 10.39% Bank's capital, on the day of 31 December 2015, the Bank has no other large exposures in excess of 10% capital approved to a single entity or a group of related entities.

27. Off-balance sheet items

In thousands of dinars	**31/12/2015**	**31/12/2014**
Guarantees, securities, secured property and commitments	**157,524**	**-**
Payment guarantees:	**127,193**	**-**
In dinars	93,000	-
In foreign currency	34,193	-
Performance guarantees:	**25,331**	**-**
In dinars	25,331	-
Revocable and irrevocable commitments for unwithdrawn loans and placements in dinars:	**5,000**	**-**
irrevocable	5,000	-
Other off-balance sheet items	**101,453**	**-**
Other irrevocable commitments under guarantees	101,355	-
Other	98	-
Total off-balance sheet items	**258,977**	**-**

Documentary operations

In 2015, the Bank started the activities of documentary operations by issuing payment and performance guarantees. The value of issued payment guarantees totals 127,193 thousand dinars, and the value of performance guarantees totals 25,331 thousand dinars.

28. Related party relationships

The following table presents the total balance sheet exposure and exposure to related parties, as well as income and expenses from related parties which influence the Bank's business operations:

In thousands of dinars for the year ending on 31 December

BALANCE SHEET	**31/12/2015**	**31/12/2014**
Liabilities		
Subordinated loan	608,130	-

PROFIT AND LOSS ACCOUNT	**2015**	**2014**
Interest expenses from subordinated loans	(453)	-

Gross and net income of the President and members of the Board of Directors and the Executive Board in 2015 were as follows:

	In thousands of dinars as at 31 December	
	31/12/2015	**31/12/2014**
Gross income	**34,882**	**-**
Executive bord	25,999	-
Board of directors	8,883	-
Net income	**28,056**	**-**
Executive bord	22,442	-
Board of directors	5,614	-

29. Commitments to lease

The Bank rents office space through operational leasing.

Future payments under operating leases where the Bank emerges as the lessee are shown in the following table:

In thousands of dinars	**31/12/2015**	**31/12/2014**
Operating leasing payments		
One year period	61,870	-
Period from 1 to 5 years	220,787	-
Period over 5 years	-	-
Total	282,657	-

30. Litigation

On the day of 31 December 2015, there are no lawsuits against third persons or the Bank.

31. Reconciliation of receivables and payables

The Bank is in accordance with Article 18 of the Accounting law performed reconciliation of receivables and payables with its debtors and creditors, and there is an authentic documentation. The Bank's client submitted the request for the certificate status or copies of open items that would harmonize with them the status of receivables / liabilities as at 31 December 2015.

Total amount of reconciled receivables and payables:

- receivables in amount of 674,957 thousand dinars,
- liabilities in amount of 1,406,484 thousand dinars,
- liability for subordinated loan in the amount of 608,130 thousand (EUR 5,000,000).

The total amount tendered sheet relates to liabilities in the amount of 3,887 thousand relating on not confirmed total status of 3,887 thousand is because customers did not support the situation in their current account at the Bank.

32. Events after the end of the reporting period

There have been no significant events after the end of the reporting period which would call for adjustments or disclosures within notes to the enclosed Bank's financial statements for the year 2015.

Belgrade, March 16, 2016

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

MIRABANK a.d. Beograd

Annual Business Report for 2015

In Belgrade, 15/03/2016

Contents

1. Macroeconomic overview[1]

According to data of the Serbian Statistical Office, in Q4 GDP grew by 1.2% in real y-o-y terms. At the same time, y-o-y growth in Q2 was revised from 0.9% to 1.1%, and growth in Q3 from 2.2% to 2.3%.

Industrial production in Serbia recovered significantly in 2015, with the rise in foreign trade particularly felt on the exports side. Within the 8.2% rise in industrial production, the strongest increase was recorded for mining (10.5%) and electricity, gas and steam supply (18.8%), followed by manufacturing which rose by 5.3%. The value of EUR-denominated exports rose by 7.8% and EUR-denominated imports by 5.8%, at higher levels of procurement of investment goods.

According to the seasonally adjusted data, industrial production in December increased by 0.6%, while posting an 11.0% rise y-o-y. Observed by sector, manufacturing increased by 0.6%, while mining increased by 37.0% and electricity, gas and steam supply by 44.5% in y-o-y terms.

Seasonally adjusted data indicate that manufacturing declined by 1.9% in December, dragged down by production of petroleum products, other manufacturing activities and production of chemicals. On the other hand, the biggest positive contribution came from production of motor vehicles and non-metallic mineral products.

Seasonally adjusted data of the Statistical Office point to a 0.2% increase in EUR-denominated exports and a 0.9% drop in EUR-denominated imports of goods. In y-o-y terms, EUR-denominated exports of goods rose in December by 3.0% and imports by 4.9%.

According to the Labour Force Survey, in Q4 the unemployment rate stood at 17.9% and the employment rate at 42.4%.

2. Serbian banking sector[2]

At the end of December 2015, the Serbian banking sector added up to 30 banks. Banks from Italy, Austria and Greece (nine banks) continued to account for the dominant share in total banking sector assets over 50%.

Over the past several years, the total number of employees in the Serbian banking sector has been declining and banks narrowed their networks.

Total balance sheet assets of the Serbian banking sector equalled RSD 3.429,4 bln at end-December 2015 (2,01% increase relative to the end of the previous quarter and 3,17% of increase compared with the begin of the year), and total capital RSD 623,5 bln (1,74% of decrease from the end of the previous quarter and 0,73% of increase compared with the begin of the year).

---

[1] Source: Statistical Office of the Republic of Serbia
[2] Source: National Bank of Serbia

The Serbian banking sector at the end of 2015 still maintained an acceptable degree of competition and low concentration of activities. The Herfindahl–Hirschman Index values indicated the absence of concentration (less than 1000), with the highest level of concentration noted in deposits (primarily household deposits) and income from fees and commissions.

Banks' lending to Corporate entities and Households continued to recover in Q4, and contributed in 2015, after the exclusion of the exchange rate fluctuations effect, to realize growth of 1.8%, despite the maturity of 110 billion dinars of subsidized loans granted last year.

Mainly thanks to the significant easing of monetary policy of the National Bank of Serbia in 2015, and lower interest rates on the international money market, the cost of borrowing in the private sector in Q4 decreased to new minimums. To the fall in interest rates, despite increased demand for loans, contributed and greater competition from banks in the credit market, with a lower cost of the fund sources for loans, banks continued with the easing of credit standards in Q4. In addition to the reference rate changes, National Bank of Serbia used reserve requirement policy for securing the conditions for an increase in credit activity, and thus for economic growth. By reduction of the rate of foreign currency required reserves in Q4 banks freed 232 million euros and 16 billion dinars of the credit potential (444 million euros and 21 billion dinars as total in 2015).

As expected as seasonal, lending of the companies intensified at the end of the year, and had influence in Q4 to be registered the largest quarterly amount of newly granted loans during 2015. Demand of Corporate entities for loans has mainly been driven by the need to finance working capital and debt restructuring, what resulted with loans for working capital to be still the most common. Positive trends in the market investment loans continued, indicating that the economy in 2015 was based to a greater extent, relied on this form of investment financing. Growth of these loans was mostly influenced by the amount of total new granted loans in 2015 to be higher than in 2014, when the program of subsidized loans was effective.

Loans to households continued to grow at the usual dynamics, while the newly granted loans to households have been dominated for a long time by loans intended for consumption (cash and refinancing).

When financing of its lending activities, banks were relying on domestic sources of financing, primarily on dinar and foreign currency deposits of businesses and households. Part of the credit potential was released and based on the reduction of foreign currency deposits with the National Bank of Serbia within the relaxation of regulations on mandatory foreign currency reserves. Higher new borrowing in foreign currency and maturity of previously granted subsidized loans decreased level of “dinarisation” loans to the economy in 2015, while the population continued to largely borrow in dinars.

3. About MIRABANK a.d. Beograd

3.1 Mission and Vision

Our mission is to support economic growth of the countries we operate in by providing transparent and sustainable financial services.

Our vision is to become internationally recognized as an innovative bank which brings economic growth to the countries where we operate in and to our stakeholders.

3.2 Values

Core Values of MIRABANK a.d. Beograd are:

- Innovation
- Commitment
- Integrity
- Take Charge
- Customer Centricity

3.3 Bank's Key Facts Sheet

- ✓ MIRABANK a.d. Beograd is the first bank in the region primarily oriented to investments from UAE;
- ✓ This is the first green field investment in the banking sector of Serbia in the last 7 years;
- ✓ Bank started with operational work with clients in September 2015;
- ✓ In 2015, the Bank did not carry out research activities, but had strong focus on the development in terms of implementation and product innovation and enhancement of level of services;
- ✓ MIRABANK a.d. Beograd is in completely different situation than majority of other banks in Serbia:

- Bank is in the operational start-up process;
- Portfolio of the Bank as of 31/12/2015 consists of only 6 corporate loans, while all other placements are Interbank loans;
- No NPL;
- Adequacy capital ratio is very high, taking into account that current structure of assets is without any positions with significant risk.

Strengths of the MIRABANK a.d. Beograd compared with other banks in Serbia are:

- ✓ Well experienced team of Banking experts;
- ✓ "Fresh" capital and good liquidity of the Bank;

- ✓ without NPL.

Opportunities for the future business development in Serbia, MIRABANK a.d. Beograd finds in:

- ✓ Progress in UAE-Serbian business and other relations;
- ✓ Constant growth of Corporate sector and GDP in Serbia;
- ✓ Increased need for crediting.

3.4 Business results overview of MIRABANK a.d. Beograd as of 31/12/2015

Key Income Statement positions(RSD Ths)	2015	2014
NET Interest income	8,829	-
NET Fees and Provisions income	294	-
NET FX Income	5,870	-
Administrative costs	(134,577)	-
Depreciation & Amortisation	(21,087)	-
Other costs	(108,577)	-
Loss before tax	(249,248)	-
Loss after tax	(261,158)	-
Key Balance Sheet positions (RSD Ths)		
Loans to banks	201,783	-
Loans to clients	510,161	-
Deposits from banks	82	-
Deposits from clients	76,939	-
Subordinated loans	608,130	-
Capital	1,529,542	-
Total Assets	2,248,727	-
Capital Adequacy		
Total Risk Assets	850,500	-
Regulatory Capital	1,895,075	-
Capital Adequacy Ratio	222,82%	-
Performance indicators		
Loan to deposit ratio	924.35%	-
Cost to income ratio	1762.43%	-
% of participation of fees in total income	1.96%	-
Resources		
Number of employees	38	-
Number of branches	1	-

4. MIRABANK a.d. Beograd Strategy 2016-2018

4.1 Strategic goals

- ✓ Respectful level of the credit activity with goal of taking position in the Serbian banking sector;
- ✓ High quality of the credit portfolio;
- ✓ Capital Adequacy ratio on the level of the Serbian banking sector;

4.2 Strategy of achievement

- ✓ Focus on Corporate clients;
- ✓ Special focus to companies from UAE which have business activities in Serbia;
- ✓ Providing all kinds of banking services: crediting, cash management, documentary business;
- ✓ Prompt crediting of the corporate clients with full respect and implementation of the Bank's procedures;
- ✓ Further development of the Bank's infrastructure;
- ✓ Further development and implementation of Bank's procedures;
- ✓ Optimization of the business processes.

5. Bank's Organisational structure

5.1 Management Structure

Shareholders

The founder of the Bank is Duingraaf Financial Investments B.V., with its seat at Amsterdam, Kabelweg 37, 1014BA, organised and existing under the laws of Netherlands and registered under no. 33246685 with the Netherlands Chamber of Commerce Commercial Register. It is the sole shareholder holding 100% of the shares issues by the Bank.

In 2015 the Bank did not acquire any Treasury Shares nor does it have any Treasury Stock (stock of its own shares).

Board of Directors

Majed Fuad Mohammad Odeh, *President of the Board of Directors*

Hesham Ahmed Monamed Elsayed Heikal, *Member of the Board of Directors*

Vladimir Radić, *Independent member of the Board of Directors*

Dejan Nikolić, *Independent member of the Board of Directors*

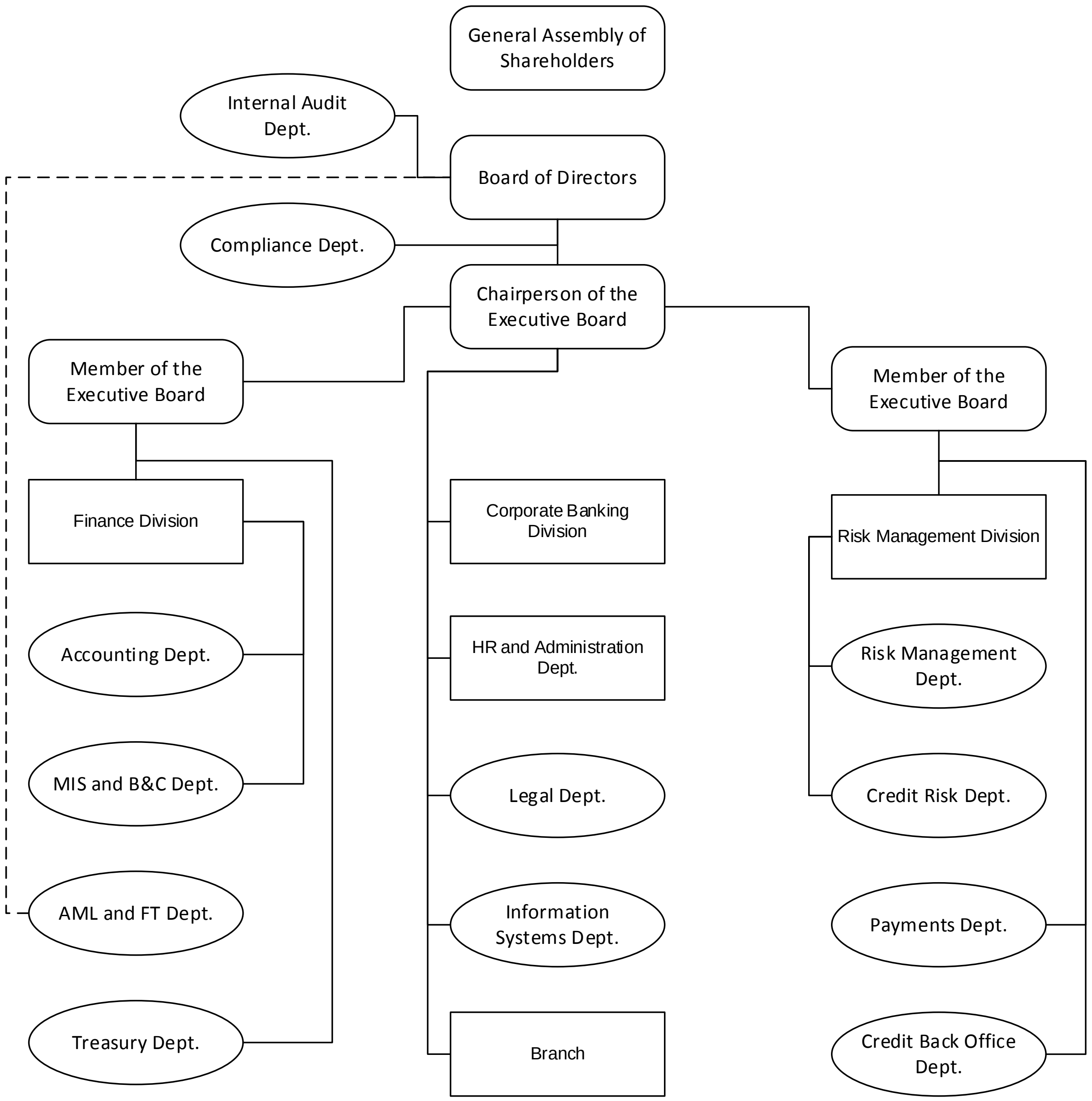
Danica Popović, *Independent member of the Board of Directors*

Executive Board

Dr. Ilinca Rosetti, *Chairperson of the Executive Board*

Saša Mićević, *Member of the Executive Board*

 TRANSLATION



6. Corporate Banking

Within the organisational structure, The Bank has established separate Corporate Banking Division. Below is a brief description of activities performed in 2015 as well as main highlights regarding the future plans.

Achieved in the previous period:

- ✓ Establishment of Corporate Banking team;
- ✓ Defying of Corporate products;
- ✓ Adoption of the Bank's procedures;
- ✓ Creating highquality client base (for the next period of the Bank's activity).

Goals for the next period:

- ✓ High quality of the credit portfolio;
- ✓ Diversification of the credit portfolio;
- ✓ Active approach to the attracting the deposits of the clients;
- ✓ Prompt crediting of the clients.

7. Risk Management

In its organizational structure, the Bank has a separate Risk Management Division. This Division covers the management of the Credit, Market, Operational and Liquidity risk.

Achieved in the previous period:

- ✓ Formation of the team and segregation of Risk Management duties;
- ✓ Defining and adoption of the strategies / methodologies / policies / procedures for Risk Management;
- ✓ Defining and implementation of a system of Risk Management Controls.

Goals for the next period:

- ✓ Improvement of the Reporting systems for the Identification, Measurement, Control and Risk Management of the Bank;
- ✓ A proactive approach to risk management.

8. Business Support

In its organizational structure, the Bank has several separate organizational units in charge of the banking business support. Those units are:

- ✓ Payments Department;
- ✓ Credit Back Office Department;
- ✓ Information System Department;
- ✓ Legal Department;
- ✓ Treasury Department;
- ✓ AML and FT Department;
- ✓ Finance Division, including Accounting Department and MIS and B&C Department;
- ✓ Compliance Department;
- ✓ Internal Audit Department.

Achieved in the previous period:

- ✓ Formation of the teams and segregation of duties;
- ✓ Defining and adoption of the strategies / methodologies / policies / procedures;
- ✓ Defining and implementation of Controls.

Goals for the next period:

- ✓ Increase of the efficiency of the business processes;
- ✓ Customer satisfaction improvement;
- ✓ Change Management;
- ✓ Cost optimization.

9. Human Resources

The Bank has a separate HR and Administration Department, with the aim of providing ultimate support to the business in business results achievement through internal processes improvement and improvement of the quality of Human Resource Management.

Achieved in the previous period:

- ✓ Recruitment of adequate staff on key positions in order to establish business processes;
- ✓ Investment in staff development;
- ✓ Defining and adoption of the Bank's procedures.

Goals for the next period:

- ✓ Establishment of a system for employees evaluation;
- ✓ Defining of the individual development plans.

10. Identity and Communication

The Bank, in accordance with the fact that recently began its operations, in 2015 made great efforts in creation of identity and increase of brand recognition of the Bank. The Bank intends in the future to continue with those activities, for the purpose of positioning, however, mainly through Below-The-Line communication and networking efforts since the nature of its business is related mainly to corporate clients where the best results are achieved on one-to-one relationship.

11. Socially Responsible Business

Taking into consideration very recent start of its activities and operations, in 2015 the Bank did not participate in socially responsible activities, but intends in the future to become an active participant, thus confirming its dedication as a socially responsible company. For the same reasons the Bank did not participate in environment protection programmes. However, having in mind the culture of the shareholders, it is expected that the Bank will actively participate in such efforts in the future.

12. Financial Reports for 2015

INCOME STATEMENT
In the period February 5 – December 31, 2015
(In RSD thousand)

	Note	2015	2014
Interest income	4.1.18; 7a	9,425	-
Interest expenses	4.1.18; 7b	(596)	-
Net interest income		**8,829**	**-**
Fee and commission income	4.1.19; 8a	1,400	-
Fee and commission expenses	4.1.19; 8b	(1,106)	-
Net fee and commission income		**294**	**-**
Net income from exchange rate gains/losses and effects of agreed currency clause	4.1.1; 9	5,870	-
Other operating income		-	-
Net expenses from impairment of financial assets and credit risk-weighted off-balance sheet items	4.1.10, 10	-	-
Net income		**14,993**	-
Salaries, salary compensations and other personal expenses	11	(134,577)	-
Depreciation expense	4.1.6, 4.1.8; 12	(21,087)	-
Other expenses	13	(108,577)	-
LOSS BEFORE TAX		**(249,248)**	**-**
Deferred tax loss	4.1.12; 14	(11,910)	**-**
LOSS AFTER TAX	**14**	**(261,158)**	**-**

Notes presented in the following pages
are integral parts of this financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

STATEMENT ON OTHER COMPREHENSIVE INCOME
In the period 5 February – 31 December 2015
(In RSD thousand)

	2015.	2014.
GAIN/(LOSS) FOR THE PERIOD	**(261,158)**	-
Other result for the period		
Components of other result which may be reclassified to profit or loss:	-	-
Decrease in revaluation reserves for intangible assets and non-current assets	-	-
Total other comprehensive income for the period	-	-
TOTAL POSITIVE/(NEGATIVE) RESULT FOR THE PERIOD	**(261,158)**	-

Notes presented in the following pages
are integral part of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

BALANCE SHEET
As of December 31, 2015
(In RSD thousand)

	Note	2015	2014
ASSETS			
Cash and assets held with the central bank	4.1.2, 15	1,147,386	-
Loans and receivables from banks and other financial institutions	4.1.3, 16	201,783	-
Loans and receivables from clients	4.1.3, 17	510,161	-
Intangible assets	4.1.8, 18	217,825	-
Property, plant and equipment	4.1.6, 19	163,370	-
Other assets	20	8,202	-
Total assets		**2,248,727**	**-**
LIABILITIES			
Deposits and other liabilities to banks, other financial institutions and central bank	4.1.3.5, 4.1.3.6, 21	82	-
Deposits and other liabilities to other clients	4.1.3.5, 4.1.3.6, 22	76,939	-
Subordinated liabilities	23	608,130	-
Provisions	4.1.14, 4.1.15, 24	2,892	-
Deferred tax liabilities	4.1.12, 14	11,910	-
Other liabilities	25	19,232	-
Total liabilities		**719,185**	**-**
Equity			
Share capital	4.1.17, 26	1,790,700	-
Loss up to amount of equity	4.1.17, 26	(261,158)	-
Total equity		**1,529,542**	**-**
Total liabilities and equity		**2,248,727**	**-**

Notes presented in the following pages
are integral parts of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

TRANSLATION

STATEMENT OF CHANGES IN CAPITAL
In the period 5 February – 31 December, 2015
(In RSD thousand)

	Share capital	Issue premium	Reserves	Accumulated result	Total
Balance as of 1 January 2014	-	-	-	-	-
Balance as of 31 December 2014	**-**	**-**	**-**	**-**	**-**
Balance as of 1 January 2015	-	-	-	-	-
Share issue as of 5 February 2015	1,790,700	-	-	-	1,790,700
Current year loss	-	-	-	(261,158)	(261,158)
Balance as of 31 December 2015	**1,790,700**	**-**	**-**	**(261,158)**	**1,529,542**

Notes presented in the following pages
are integral part of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

TRANSLATION

CASH FLOW STATEMENT
In the period 5 February – 31 December 2015
(In RSD thousand)

	2015	2014
Cash flow from operating activities	**14,867**	**-**
Inflow from interest	9,425	-
Inflow from fees	5,442	-
Cash outflow from operating activities	**(220,595)**	**-**
Outflow from interest	(363)	-
Outflow from fees	(1,026)	-
Outflow from gross salaries, salary compensations and other personal expenses	(134,519)	-
Outflow from taxes, contributions and other duties charged to income	(83)	-
Outflow from other operating expenses	(84,604)	-
Net cash inflow/(outflow) from operating activities before an increase or decrease in lending and deposits	**(205,728)**	**-**
Net increase/(decrease) in loans and placements to banks and clients	(581,546)	-
Net increase/(decrease) in deposits from banks and clients	76,707	-
Net cash inflow/(outflow) from operating activities	**(710,567)**	**-**
Outflow from purchase of intangible assets and non-current assets	(408,909)	- -
Net cash (outflow)/inflow from investing activities	**(408,909)**	**-**
Inflow from capital increases	1,790,700	-
(Outflow)/inflow from subordinated liabilities	608,314	-
Net cash (outflow)/inflow from financing activities	**2,399,014**	**-**
Net increase/decrease in cash and cash equivalents	**1,279,538**	**-**
Cash and cash equivalents at year beginning	**-**	**-**
Net exchange rate gains	(252)	-
Cash and cash equivalents at year end	**1,279,286**	**-**

Notes presented in the following pages
are integral part of the financial statement.

Signed for Mirabank a.d., Beograd:

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board

1. Establishment and Operations of the Bank

Founder of the Mirabank a.d. Beograd (hereinafter: the Bank), Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, The Netherlands (hereinafter: the Founder), obtained the preliminary permit to incorporate the Bank with the Decision of the National Bank of Serbia No. IO NBS 32 dated August 18, 2014.

The National Bank of Serbia issued a Decision No. IO NBS 58 dated December 16, 2014, thus granting the operating license to the Bank.

Upon obtaining the approval from the National Bank of Serbia for the acts of the Founding Assembly of the Bank (the Decision on Appointment of the President and Members of the Board of Directors of the Bank, the Decision on Appointment of the President and Members of the Executive Board of the Bank, the Decision on the Adoption of the Articles of Association of the Bank, the Decision on the First Share Issue of the Bank, the Decision on the Adoption of the Strategy and Business Policy of the Bank), the Bank was registered with the Companies Registry based on the Decision of the Serbian Business Registers Agency BD 8779/2015 dated February 5, 2015.

The Founder of the Bank and the Bank are not members of the bank group. The initial capital of the Bank is EUR 15 million in RSD counter value; capital conversion was performed on April 6, 2015, upon opening of the Bank's account with the National Bank of Serbia, following which the Bank began conducting its operations through that account and payment transactions, and at the same time it initiated the reporting process to the National Bank of Serbia.

Pursuant to the Law on Banks, Decision on Incorporation and Articles of Association of the Bank, the Bank was registered to perform the following operations:

- Deposit activities, i.e., accepting and placing all types of cash deposits,
- Lending activities, i.e., granting and taking all types of loans,
- Foreign exchange, foreign currency operations and exchange transactions,
- Payment transactions,
- Payment cards' issuing,
- Activities regarding securities,
- Issuing sureties, guarantees, sureties on promissory notes and other types of warranties
- Purchase, sale and collection of receivables (factoring, forfeiting, etc.),
- Activities for which it is authorized in compliance with the Law,
- Providing other financial services.

Members of the Executive Board of the Bank as at 31 December 2015 are:
Ilinca Rosetti, Chairperson
Saša Micevic, Member

Members of the Board of Directors of the Bank as at 31 December 2015 are:
Majed Fuad Mohammad Odeh, President
Hesham Ahmed Monamed Elsayed Heikal, Member
Vladimir Radić, Member
Dejan Nikolić, Member
Danica Popović, Member

The target group of clients for the Bank comprise of legal entities, and no operations with the physical persons have been planned for the initial two years of operation.

The official seat of the Bank is in Belgrade, at 1 Španskih boraca Street in Novi Beograd, and its operations are conducted in 1 branch office in the territory of the Republic of Serbia at the same address. As at 31 December, 2015, the Bank had the workforce of 38 employees.

The Bank's Company registration number is 21080608. The Tax Identification Number assigned to the Bank is 108851504.

2. Basis for Preparation and Presentation of Financial Statements and Accounting Policy

The basis for preparation and basic accounting policies applied in preparation of individual financial statements are presented below.

The accounting policies were applied consistently to all the presented years, unless specified otherwise.

Compliance Statement

These financial statements (below: financial statements) of the Bank for the period from 05 February to 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS).

Financial statements of the Bank for period from 5 February (foundation date) to 31 December are the first financial statements.

The financial statements of the Bank have been prepared in accordance with the going concern, which implies that the Bank will continue to operate in the foreseeable future.

2.1. Basis for Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs in the Republic of Serbia are legally obliged to keep books of account, recognize and evaluate their assets and liabilities, revenues and expenditure, prepare, present, submit and disclose their financial statements in compliance with the Law on Accounting (hereinafter: the Law, published in the Official Gazette of the Republic of Serbia, No. 62/2013).

The Bank, as a large legal entity, is obliged to apply the International Financial Reporting Standards ("IFRS"), which, within the meaning of the said Law, include the following: Chart of Accounts for preparation and presentation of financial statements ("Chart") and the International Accounting Standards ("IAS"), The International Financial Reporting Standards ("IFRS") and relevant interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"), subsequent amendments to these standards and the related interpretations, as approved by the International Accounting Standards Board ("the Board"), the translation of which was determined and published by the Ministry in charge of finances. In addition, in accordance with the amendments to the Banking Act ("Off. Gazette of RS", no. 14/2015), the banks in the Republic of Serbia are obliged to in the preparation of annual financial statements apply IFRS, as well as subsequent amendments to standards and their related interpretation of the date of their issuance by the competent body.

Financial statements were prepared on the historical costs basis, unless specifically stated otherwise in the accounting policies presented below.

For preparation of the present financial statements, the accounting policies described in the Note 4 were applied by the Bank.

2.2. Published Standards and Interpretations in Force in the Current Period that have not yet been officially translated or adopted

In the current year, the Bank has changed the amendments to IFRS issued by the International Accounting Standards Board, whose application is mandatory for accounting periods beginning on or after January 1, 2015. The following standards and interpretations came into effect in the current accounting period:

- Amendments to IAS 19 - Employee Benefits - Defined benefit plans: contributions for employees (the means for annual periods beginning on or after 1 July 2014); Application of these amendments had no material impact on the disclosure of the amount recognized in the financial statements;

  Annual Improvements to IFRSs 2010 -2012 Cycle, which resulted in Project of annual quality improvement of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with the objective to eliminate non-compliance and improve definitions (effective for annual periods beginning on or after 1 July 2014); Application of these amendments had no material impact on the disclosure of the amount recognized in the financial statements;

- Amendments to a number of standards and interpretations for period from 2011 until 2013, IFRS Improvement, are the result of the IFRS Annual Improvements of Quality Project (IFRS 1, IFRS 3, IFRS 13, IAS 40) primarily with the aim to correct conflicts and clarify wordings (most of these amendments shall be effective for annual periods beginning on or after 1 July 2011). Annual improvements for the period from 2011 to 2013, did not have a significant impact on the measurement and disclosure of the amount recognized in the financial statements of the Bank.

2.3. Published Standards and Interpretations that Are Not Effective

As at the date of these Financial Statements, the following standards, amendments and interpretations thereto were published, but not yet effective for the financial year ended 31 December 2015:

- IFRS 9 - "Financial Instruments" and subsequent amendments, which replaces the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", relating to the classification and measurement of financial assets. Standard eliminates the existing categories of IAS 39 - Assets held to maturity, available for sale and loans and advances. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted;

- Amendments to IFRS 11 "Joint Arrangements" - Accounting for the acquisition of interests in joint businesses (effective for annual periods beginning on or after 1 January 2016);

- IFRS 14 – Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016);

- IFRS 15 - "Income by agreement with the customer," which defines the framework for the recognition of revenue. IFRS 15 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC13 "Customer Loyalty Programmes", IFRIC15 "Agreements for the Construction of Real Estate" and IFRIC18 "Transfers of assets from customers". IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted;

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Interpretation acceptable depreciation method (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture - Industrial plants (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IAS 27 "Separate Financial Statements" - Equity method in the separate financial statements (effective for annual periods beginning on or after 1 January 2016);

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - The sale or transfer of funds between the investor and its associates or joint ventures - (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures" – appliance of change of

- Exemptions for the consolidated financial statements - (effective for annual periods beginning on or after 1 January 2016);

- Annual improvements for the period from 2012 to 2014 (effective for annual periods beginning on or after 1 July 2016)

  Amendments to IAS 1 "Presentation of Financial Statements" - an initiative for disclosure - (effective for annual periods beginning on or after 1 January 2016).

2.3.1 Assessment of impact of the above changes of Bank's management

- In accordance with IFRS 9, financial assets will classify into one of the two above-mentioned categories at initial recognition: financial assets measured at amortized cost or financial assets measured at fair value.

  A financial asset will be recognized at amortized cost if the following two criteria are satisfied: assets related to the business model, which aims to apply the agreed cash flows and contractual terms provide a basis for payment on certain dates the cash flows that are solely the collection of principal and interest on the principal outstanding.

  All other assets will be valued at fair value. Gains and losses on valuation of financial assets at fair value will be recognized in the income statement, except for investments in equity instruments that are not traded, where IFRS 9 permits, at initial recognition, the selection of unchangeable later that all changes in fair value recognized within other gains and losses in the statement of comprehensive income.

  Having in mind that the bank is in the first year of operations, and that the volume of business and the level of exposure in terms of financial instruments as at 31 December 2015 is not significant, the Bank has not defined a plan of implementation of IFRS 9 and did not carry out an assessment of the potential effects of introducing this standard. Keeping in mind the Bank's operations in the coming period will be executed above-mentioned assessment and develop a plan for the implementation of IFRS 9.

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" will not have a material effect on the financial statements, because management believes that the linear method of calculating depreciation for the Bank is the most suitable.

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures" will not have a material effect on the financial statements, because the same no holding company, subject, or Associated face, not a joint venture that would represent an investment firm.

- For other standards and interpretations that have been issued but not yet effective, the Management of the Bank believes that it will have a material effect on the financial statements of the Bank.

3. Official Reporting Currency

The Financial Statements of the Bank are presented in RSD thousands. Serbian Dinar is the official reporting currency in the Republic of Serbia.

4. Summary of Significant Accounting Policies and Estimates

4.1 Accounting Policies

4.1.1 Transactions in Foreign Currency

The Financial Statements are presented in Serbian Dinar (RSD), which is the functional currency of the Bank and the currency of the Bank's country of incorporation. Transactions in foreign currencies are translated into the functional currency at the middle exchange rate at the date of the transaction.

Foreign exchange rates determined on the Interbank Foreign Exchange Market used in the translation of balance sheet items in currencies at 31 December 2015 for major currencies are:

	31 December 2015
USD	111.2468
EUR	121.6261

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency at the middle exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the middle exchange rate at the date of initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value. The exchange differences relating to these items are part of the change in fair value and they are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

Foreign exchange differences arising on translation are recognized in the income statement.

4.1.2 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents consists of:
1) Cash on hand,
2) Non-restricted placements with the National Bank of Serbia,
3) Non-restricted placements on nostro accounts with other banks.

Below is an overview of the differences between cash in the cash flow statement, cash position and balances with the Central Bank in the Balance Sheet:

In thousands of dinars	**Balance sheet**	**Cash flows**	**Difference**
Gyro account	71,728	71,728	-
Cash on hand	5,358	5,358	-
	77,086	**77,086**	**-**
In foreign currency			
Cash on hand	5,021	5,021	-
Foreign currency account	-	196,918	(196,918)
Liquidity surpluses deposited with the NBS	1,000,261	1,000,261	-
Mandatory reserve at NBS	65,018	-	65,018
	1,070,300	**1,202,200**	**(131,900)**
Balance as at 31 December 2015	**1,147,386**	**1,279,286**	**(131,900)**

4.1.3 Classification and Measurement of Financial Instruments

The Bank classifies the financial assets in the following four categories:
1) Loans and receivables,
2) Held-to-maturity investments,
3) Financial assets at fair value through profit or loss
4) Available-for-sale financial assets.

4.1.3.1 Initial Recognition

The Bank recognizes financial assets or financial liabilities in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Upon initial recognition the Bank measures financial assets and liabilities at fair values. Financial instruments not measured at fair value through profit or loss are initially recognized at fair value plus transaction costs and minus fees that are directly attributable to the acquisition or issue of the financial instrument.

4.1.3.2 Subsequent Measurement of Financial Assets

For each of the above categories the following applies:

1) Loans and Receivables

Non derivative financial assets, with fixed or determinable payments, that are not quoted in an active market and for which the Bank does not expect not to recover its investment, other than because of credit deterioration of the client, can be classified as loans and receivables.

The Bank has classified the following as loans and receivables:
a) Loans to clients,
b) Amounts paid to acquire a portion or the total of series of bonds that are not quoted in an active market,
c) All receivables from clients, banks, etc.,
d) Bonds with fixed or determinable payments that are not quoted in an active market.

This category is measured at amortized cost using the effective interest rate method and is periodically tested for impairment, in compliance with the procedures described under 4.1.10.

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating the interest income or expense during a specified period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the contractual life of a financial instrument or the next interest rate repricing date.

2) Held-to-Maturity Investments

Non derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold until maturity can be classified as held to maturity investments. Held to maturity investments are measured at amortized cost using the effective interest rate method and are tested for impairment at each reporting date. In cases when objective evidence exists that an impairment loss has occurred, the carrying amount of the financial asset is reduced to the recoverable amount, and the difference is recognized in profit or loss.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

3) Financial Assets at Fair Value through Profit or Loss

Financial assets in this category are as follows:

a) Financial assets acquired primarily for the purpose of selling in the near term, to obtain short term profit (financial assets held for trading),
b) Financial assets that the Bank designated, at the initial recognition, as financial assets at fair value through profit or loss.

This classification is used under following circumstances:

a) When management monitors and manages the financial instruments on a fair value basis in accordance with a documented risk management or investment strategy.
b) When the designation eliminates an accounting mismatch which would otherwise arise from measuring financial assets and liabilities on a different basis (i.e. amortized cost) in relation to another financial asset or liability (i.e. derivatives that are measured at fair value through the profit or loss).
c) When a financial instrument contains an embedded derivative that significantly modifies the cash flows or where separation of these derivatives from the main financial instruments is not prohibited.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4) Available-for-sale Financial Assets

Available-for-sale financial assets are financial assets that have not been classified in any of the previous categories. This category is measured at fair value. Changes in fair value are recognized directly in equity until the financial asset is sold. Upon sale, the cumulative gains and losses previously recognized in equity are recognized in profit or loss. The financial assets included in this category are reviewed at each balance sheet date to determine whether there is any indication of impairment. For investments in securities, a significant and prolonged decline in their fair value below their acquisition cost is considered as an objective evidence of impairment.

The Bank considers any decrease exceeding 20% of the cost of the investment to be “significant”.

The Bank considers a decrease to be “prolonged” if such decrease in the fair value is below cost for a continuous period exceeding one year.

The above criteria are assessed in conjunction to the general market conditions.
In case of impairment, the cumulative loss already recognized in equity is reclassified in profit and loss.

When a subsequent event causes a decrease in the amount of impairment loss recognized on an available-for-sale financial asset, the impairment loss is reversed through profit or loss, providing that it can be objectively related to such event that occurred after the recognition of the impairment loss. The impairment losses recognized for investments in shares are not reversed through profit or loss.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.3.3 Reclassification of Financial Assets

Reclassification of non-derivative financial assets is permitted in the following cases:

1) Reclassification out of the “held-for-trading” category to the “loans and receivables” category, “investments held to maturity” category or “available-for-sale financial assets” category is permitted in some rare cases only and then the financial assets are no longer held for sale in the foreseeable future.
2) Reclassification out of the “held-for-trading” category to either “loans and receivables”, or “available-for-sale” is permitted, providing, however, that the financial assets meet the definition of loans and receivables and that there is the intention to hold them for the foreseeable future or until maturity.
3) Reclassification out of the “available-for-sale” category to the “loans and receivables” category is permitted for financial assets that comply with the definition of loans and receivables and the Bank intends to hold the financial asset for the foreseeable future or until maturity.
4) Reclassification out of the “available-for-sale” category to the “held to maturity” category is permitted for financial assets that comply with the relevant characteristics of the “held-to-maturity investments” and the Bank has the intention and ability to hold that financial asset until maturity.

5) Reclassification out of the "held-to-maturity" category to the "available-for-sale" category occurs when the Bank has no longer the intention or the ability to hold these instruments until maturity. In case of a sale or reclassification of a significant amount of held-to-maturity investments, the remaining investments in this category are mandatorily transferred to the available-for-sale category. Over the period of two years from such reclassification, the Bank may not classify any securities as held-to-maturity. Exceptions apply in cases of sales or reclassifications of investments that:
   a) Are very close to maturity,
   b) After the Bank has collected substantially the entire amount of financial asset's original principal through scheduled payments or prepayments,
   c) Are caused by some specific, non-recurring event that is beyond the control of the Bank.

4.1.3.4 Derecognition of Financial Assets

The Bank derecognizes a financial asset when:
1) The cash flows from the financial asset expire,
2) The contractual right to receive the cash flows of the financial assets is transferred and at the same time both risks and rewards of ownership are transferred,
3) Loans and receivables or investments in securities are no longer recoverable and consequently are written off.

In case of transactions, where despite the transfer of the contractual right to recover the cash flows from financial assets both the risk and rewards remain with the Bank, no derecognition of these financial assets occurs. The amount received based on such the transfer is recognized as a financial liability. The accounting practices followed by the Bank in such transactions are analysed further under 4.1.16.
In case of transactions whereby the Bank transfers the risks and rewards of the financial assets, but retains control over them, the financial assets are recognized to the extent of the Bank's continuing involvement.

If the Bank does not retain control of the assets then such assets should be derecognized, and in their position the Bank recognizes, distinctively, the assets and liabilities which are created or retained during the transfer.

4.1.3.5 Subsequent Measurement of Financial Liabilities

The Bank classifies financial liabilities in the following categories for measurement purposes:

1) Financial liabilities measured at fair value through profit or loss,
   a. This category includes financial liabilities held for trading, that is:
      i. Financial liabilities acquired or incurred principally with the intention of selling or repurchasing in the near term for short term profit, or
      ii. Derivatives not used for hedging purposes.

Liabilities arising from either derivatives held for trading or derivatives used for hedging purposes are presented as "derivative financial liabilities" and are measured according to the principles set out under 4.1.4.

   b. This category also includes financial liabilities which are designated by the Bank as at fair value through profit or loss upon initial recognition, in compliance with the principles set out for financial asset, under 4.1.3.2, point 3.

2) Financial liabilities carried at amortized cost

The liabilities classified in this category are measured at amortized cost using the effective interest method.

Liabilities to credit institutions and customers, debt securities issued by the Bank and other loan liabilities are classified in this category.

In cases where the financial liabilities included in this category are designated as the hedged item in a hedge relationship, the accounting principles applied are those set out under 4.1.4.

4.1.3.6 Derecognition of Financial Liabilities

The Bank derecognizes a financial liability (or part thereof) when its contractual obligations are discharged or cancelled or expired.

1 In cases that a financial liability is exchanged with another one with substantially different terms, the exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new one.

2 The same applies in cases of a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor).

3 The terms are considered substantially different if the discounted present value of the cash flows under the new terms (including any fees paid or any fees received), discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability.

The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4.1.3.7 Netting (Offsetting) of Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, only in cases where the Bank has both the legal right and the intention to settle them on a net basis, or to realize the asset and to settle the liability simultaneously.

The Bank did not offset financial assets and financial liabilities on the balance sheet date.

4.1.4 Derivatives

Derivatives are financial instruments that upon recognition have a minimal or zero value that subsequently changes in accordance with a particular underlying instrument (foreign exchange rate, interest rate, index or other variable).

Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives are used for either hedging or trading purposes and they are measured at fair value irrespective of the purpose for which they have been transacted.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.4.1 FX Swaps

These types of swaps are entered into primarily to hedge the exposures arising from customer loans and deposits. As there is no documentation to support hedge accounting, the FX swaps are classified as trading instruments.

The result arising from these derivatives is recognized as interest and foreign exchange differences, in order to match with the interest element and foreign exchange differences resulting from the loans and deposits, and as other gains less losses on financial transactions.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.5 Fair Value Measurement

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

The Bank measures the fair value of assets and liabilities traded in active markets based on available quoted market prices. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate under the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

4.1.5.1 Financial Instruments

For financial instruments, the best evidence of fair value at initial recognition is the transaction price, unless the fair value can be derived by other observable market transactions relating to the same instrument, or by a valuation technique using only observable inputs. In these cases, if the fair value differs from the transaction price, the difference is recognized in income statement. In all other cases, fair value is adjusted to defer the difference with the transaction price. After initial recognition, the deferred difference is recognized as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the instrument.

4.1.5.2 Non Financial Assets and Liabilities

The most important category of non-financial assets for which fair value is estimated is real estate property.

The process predominantly followed for the determination of fair value are listed below:
1) Assignment to the engineer – valuer,
2) Case study - Setting of additional data,
3) Autopsy – Inspection,
4) Data processing – Calculations,
5) Preparation of the valuation report.

The fair value measurement of a property takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4.1.6 Property, Plant and Equipment

This caption includes: land, buildings used by the branches or for administrative purposes, additions or improvements of leased property and equipment.

Property, plant and equipment are initially recognized at cost which includes any expenditure directly attributable to the acquisition of the asset. Subsequently, property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditures are recognized on the carrying amount of the item when it increases future economic benefit only. Expenditure on repairs and maintenance is recognized in profit or loss, as an expense as incurred.

Depreciation is charged on a straight line basis over the estimated useful lives of property, plant and equipment and it is calculated on the asset's cost minus residual value.

Description	Estimated useful life (in years)	Minimal rate per year (%)
Buildings	Max 50	2
Furniture	Max 25	4
Electronic systems	Max 15	6.67
Other	Max 10	10

The residual value of property and equipment and their useful lives are periodically reviewed and adjusted if necessary at each reporting date.

Property, plant and equipment are reviewed at least once a year to determine whether there is an indication of impairment (impairment test) and if they are impaired, the carrying amount is adjusted to its recoverable amount and the difference is recorded in profit or loss. If there is an indication that some event might have caused the impairment, the Bank is performing the impairment test even more often than once per year.

Gains and losses from the sale of property and equipment are recognized in profit or loss.

4.1.7 Investment Property

This category includes buildings or portions of buildings that are held to earn rental income or for the purpose of increase of their value. Investment property is initially recognized at cost which includes any expenditure directly attributable to the acquisition of the asset.

At the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.8 Intangible Assets

In this category, the Bank has included software, which is measured at cost less accumulated amortization, and impairment losses.

The cost of separately acquired software comprises of its purchase price and any directly attributable cost of preparing the software for its intended use.

Amortization is charged over the estimated useful life of the software, which the Bank has estimated to 15 years. The Bank's core system is estimated to 7 years. Expenditure incurred to maintain software programs is recognized in the income statement as incurred.

Software that is considered to be an integral part of hardware (hardware cannot operate without the use of the specific software) is classified under "Property, plant and equipment".
Intangible assets are amortized using the straight line method, excluding those with indefinite useful life, which are not amortized.
All intangible assets are tested for impairment. No residual value is estimated for intangible assets.

4.1.9 Lease

The Bank enters into leases either as a lessee, or as a lessor. When all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee they are classified as finance leases. All other lease agreements are classified as operating leases.

The accounting treatment followed depends on the classification of the lease, which is as follows:

4.1.9.1 When the Bank is the Lessee

1) Finance Leases:

For finance leases, where the Bank is the lessee, the leased asset is recognized as "Property, plant and equipment" and a respective liability is recognized in "Other liabilities".

At the commencement of the lease, the leased asset and liability are recognized at amounts equal to the fair value of leased property, or (if lower) at the present value of the lease payments. The discount rate used in calculating the present value of the lease payments is the interest rate implicit in the lease or, if this is not available, the Bank's borrowing rate for similar financing.

Subsequent to initial recognition the leased assets (recognized as "Property, plant and equipment") are depreciated over their useful lives unless the duration of the lease is less than the useful life of the leased asset and the Bank does not expect to obtain ownership at the end of the lease, in which case the asset is depreciated over the term of the lease. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

2) Operating Lease:
For operating leases, the Bank as a Lessee does not recognize the leased asset but charges in general administrative expenses the lease payments on an accrual basis. Bank are operating leases for office space and cars.

4.1.10 Impairment of Loans and Receivables

The Bank assess as at each balance sheet date, whether there is objective evidence of impairment of loans and receivables in accordance with the general principles and methodology set out in IAS 39 and the relevant internal methodology.

The bank currently has a small number of advances, and assesses them on an individual basis, with the growth of the portfolio will gradually develop internal methodology. The Bank has defined credit events based on which it determines whether there has been impairment.

Objective evidence of impairment of balance sheet assets on an individual basis, of:

- if the debtor's financial condition indicates significant problems in his business;
- if there are data of settlement of liabilities, the frequent delays in payment of interest and / or principal, or the non-fulfilment of other contractual provisions;
- if the bank, due to financial difficulties of the debtor, essentially change the terms of repayment claims in relation to those originally agreed;
- if it becomes certain that it will be launched bankruptcy proceedings against the debtor or other of its financial reorganization.

The bank currently has no defined groups for collective assessment, there is no sufficient long history and already in the first year developed internal methodology based on statistical calculations that would be credible portfolio of the Bank.

The Bank will carry out a collective assessment when conditions call for it.

4.1.11 Impairment of Non-Financial Assets

The Bank assesses at least once per year non-financial assets for impairment, particularly property, plant and equipment, investment property and intangible assets. In assessing whether there is an indication that an asset may be impaired, both external and internal sources of information are considered, of which the following are indicatively mentioned:

1) The asset's market value has declined significantly, more than would be expected as a result of the passage of time or normal use;
2) Significant changes with an adverse effect have taken place during the period or will take place in the near future, in the technological, economic or legal environment in which the Bank operates or in the market to which the asset is dedicated;
3) Significant adverse changes in foreign exchange rates;
4) Interest rates have increased during the period, and such increases are likely to affect the discount rate used in calculating an asset's value in use;
5) The carrying amount of the net assets of the Bank is more that its market capitalization;
6) Evidence is available of obsolescence or physical damage of an asset.

An impairment loss is recognized in profit or loss when the recoverable amount of an asset is less than its carrying amount.

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

Fair value less costs to sell is the amount received from the sale of an asset (less the cost of disposal) in an orderly transaction between market participants.

Value in use for property, plant and equipment is the present value of the future cash flows expected to be derived from an asset or cash–generating unit through their use and not from their disposal. Value in use incorporates the value of the asset as well as all the improvements which render the asset perfectly suitable for its use by the Bank.

On the balance sheet date the Bank has no impairment of non-financial assets.

4.1.12 Income Tax

Income tax consists of current and deferred tax.

Current tax for a period includes the expected amount of income tax payable in respect of the taxable profit for the current reporting period, based on the tax rates enacted at the balance sheet date.

Deferred tax is the tax that will be paid or for which relief will be obtained in future periods due to the different period that certain items are recognized for financial reporting purposes and for taxation purposes.

It is calculated based on the temporary differences between the tax base of assets and liabilities and their respective carrying amounts in the financial statements.

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the temporary difference reverses, based on the tax rates (and laws) enacted at the balance sheet date (15 percent).

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Income tax, both current and deferred, is recognized in profit or loss except when it relates to items recognized directly in equity. In such cases, the respective income tax is also recognized in equity.

4.1.13 Non-Current Assets Held for Sale

Non-current assets that are expected to be recovered through a sale transaction, along with the related liabilities, are classified as held-for-sale.

The above classification is used if the asset is available for immediate sale in its present condition and its sale is highly probable. The sale is considered highly probable when the following conditions are met:
1) It has been decided by the Management,
2) An active program to locate a buyer has been launched,
3) The asset has to be actively marketed for sale, at a price which is reasonable in relation to its current fair value, and
4) The sale is expected to be completed within one year.

Non-current assets that are acquired exclusively with a view to their subsequent disposal are classified as held for sale at the acquisition date when the one-year requirement is met and it is highly probable that the remaining criteria will be met within a short period following the acquisition (usually within three months).

Non-current assets held for sale consist mainly of assets acquired through the enforcement of security over loans and advances.

Prior to their classification as non-current assets held for sale, such assets are remeasured in accordance with the respective accounting standard.

Assets held for sale are initially recognized and subsequently measured at each balance sheet date at the lower of their carrying amount and fair value less cost to sell.

Any loss arising from the subsequent measurement is recorded in profit or loss and can be reversed in the future.

Assets in this category are not depreciated. Gains or losses from the sale of these assets are recognized in the income statement.
Non-current assets that are acquired through enforcement procedures based on loans and receivables but are not available for immediate sale or are not expected to be sold within a year are included in “Other Assets” and are measured at the lower of cost (or carrying amount) and fair value.
Non-current assets held for sale, that the Bank subsequently decides either to use or to lease, are reclassified to the categories of “Property, plant and equipment” or “Investment property”. For reclassification purposes, such assets are measured at the lower of their recoverable amount and their carrying amount (before they were classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the assets not been classified as held for sale).

As at the balance sheet date, the Bank has not reported outstanding balance under this position.

4.1.14 Employee Benefits

A defined benefit plan is a pension plan that defines an amount of pension benefit that is to be paid to the employee on retirement.

As at each balance sheet date, the Bank is estimating the long-term provisions for retirement pay as the present value of the expected future payments to employees, based on an actuarial valuation.

The net liability recognized in the profit or loss is the present value of the defined benefit obligation (which is the expected future payments required to settle the liabilities resulting from employee service in the current and prior periods).

The present value of the defined benefit liability is calculated based on the return of high quality corporate bonds with a corresponding maturity to that of the obligation, or based on the return of government bonds in cases when there is no deep market in corporate bonds.

Interest on the net defined benefit liability, which is recognized in profit or loss, is determined by multiplying the net defined benefit liability by the discount rate used to discount post-employment benefit obligation, as determined at the beginning of the financial year, taking into account any changes in the net defined benefit liability.

Service cost, which is also recognized in profit or loss, consists of:
1) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
2) Past service cost that is the change in the present value of the defined benefit obligation for employee service/services provided in previous periods, resulting from the changes (introduction or withdrawal to a defined benefit plan) or a curtailment (a significant reduction in the number of employees covered by a plan by the Bank);
3) Any gain or loss on settlement.

Prior to determining the past service cost and gain or loss on settlement, the Bank remeasures the net defined benefit liability using the current actuarial assumptions, curtailment or settlement.

Past service cost is directly recognized to profit or loss at the earliest of the following dates:
1) When the plan is changed or when curtailment occurs; or
2) When the Bank recognizes restructuring costs (in compliance with IAS 37) or when the benefits are terminated.

Likewise, the Bank recognizes a gain or loss on the settlement when the settlement occurs.

Remeasurements of the net defined benefit liability, which comprise of:
1) Actuarial gains and losses;
2) Any change in the effect of the limitation of assets, excluding amounts included in net interest on the net defined benefit liability, are recognized directly in other income and cannot be recognized in profit or loss in subsequent periods.

When the Bank decides to terminate the employment contract before retirement or the employee accepts the Bank's offer (which includes certain benefits) in exchange for termination of employment, the liability and the relative expense for termination benefits are recognized at the earlier of the following dates:
1) When the Bank can no longer withdraw the offer of those benefits; and
2) When the Bank recognizes restructuring costs that involve the payment of termination benefits.

4.1.15 Provisions and Contingent Liabilities

A provision is recognized if, as a result of a past event, the Bank has a present legal or contractual obligation that can be estimated reliably, and it is certain that an outflow of economic benefits will be required to settle the obligation.

Provisions are, also, recognized in cases of restructuring plans based on the management attempts either to change the corporate activity or the manner in which it is conducted (e.g. close down of branches).

The recognition of a provision is accompanied with the relevant program authorized by the Management and with the suitable actions of disclosure.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Where the effect of the time value of money is material, the amount of the provision is equal to the present value of the expenditures expected to settle the obligation.

Amounts paid for the settlement of an obligation are set against the original provisions for these obligations.

Provisions are reviewed at the end of each reporting period.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Additionally, provisions are not recognized for future operating losses.

Future events that may affect the amount required to settle the obligation, for which a provision has been made, are taken into account where sufficient objective evidence exists that they will occur.

Reimbursements (refunds) from third parties relating to a portion of or the entire estimated cash outflow are recognized as assets, only when it is very certain that they will be received.

The amount recognized for the reimbursement (refund) must not exceed the amount of the provision.

The expense recognized in profit or loss relating to the provision is presented net of the amount of the reimbursement (refund).

The Bank does not recognize in the statement of financial position contingent liabilities which relate to:
1) Contingent liabilities resulting from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Bank, or
2) Present liabilities resulting from past events and:
   a) It is not probable that an outflow of resources embodying the economic benefits will be required to settle the liability; or
   b) The liability amount cannot be estimated reliably.

The Bank provides disclosures for contingent liabilities taking into consideration materiality thereof.

4.1.16 Repo operations and pledge on securities

The Bank purchases securities under agreements to resell on a certain future date, at a fixed price (repos).

Securities purchased subject to commitments to resell them at future dates are not recognized as investments. These are recognized as “Loans and Receivables” from banks or clients, in the amount paid.

The difference between the purchase and resale price is recognized as interest income, on accrual basis.
Securities sold under agreements to repurchase continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category that they have been classified in and are presented as investments.

The proceeds from the sale of the securities are reported as liabilities to either banks or customers.

The difference between the sales price and the repurchase price is recognized as interest expenses on accrual basis.

Securities acquired by the Bank under securities resale agreements are not recognized in the balance sheet except when these are sold to third parties whereby the liability to deliver the security is recognized and measured at fair value.

4.1.17 Equity

4.1.17.1 Distinction between Debt and Equity

Financial instruments issued by the Bank to obtain financial assets are classified as equity in cases where, based on the substance of such transaction, the Bank does not undertake a contractual obligation to pay cash or another financial asset or to exchange financial instruments under conditions that are potentially unfavourable for the issuer.

In cases where the Bank is required to issue equity instruments in exchange for the funding obtained, the number of equity instruments must be fixed and determined on the initial contract, in order for the obligation to be classified as equity.

4.1.17.2 Incremental Costs of Share Capital Increase

Incremental costs directly attributable to the issue of new shares are presented in equity as a deduction, net of tax, from retained earnings.

4.1.17.3 Share Premium

Share premium is the difference between the nominal value of shares and actually received consideration in case of a share capital increase. The share premium additionally includes the difference between the nominal value of issued shares and the market value of such shares, in cases of exchanges of shares as consideration for acquisition of a business (company) by the Bank.

4.1.17.4 Retained Earnings

Retained earnings are previous years' earnings for which General Assembly have not made any decision on distribution.

4.1.18 Interest Income and Expense

At accounts: revenue from interest on loans, deposits, securities, other investments and assets in dinars and foreign currency, shall disclose accrued income from regular and default interest in the current accounting period, regardless of the time it falls due for payment.

At accounts: expense from interest on loans, deposits, securities, other investments and assets in dinars and foreign currency, shall disclose accrued income from regular and default interest in the current accounting period, regardless of the time it falls due for payment.

Interest income and expense is recognized in the income statement for all interest bearing financial assets and liabilities. Interest income and expense are recognized on accrual basis and measured by using the effective interest rate.

The effective interest rate method includes all paid or received fees and costs, which are integral part of effective interest rate. Interest on impaired financial assets is determined in the manner specified under 4.1.10.

4.1.19 Fee and Commission Income and Expenses

Accounts of income from fees and commissions in dinars and foreign currency, shall disclose income from fees and commissions accounted for in the current accounting period irrespective of the time of their collection, such as fees for dinar and foreign payment transactions, fees for warranty processing, etc.

Accounts of expenditure fee and commission income, in dinars and foreign currency, shall disclose accrued fees and commission expenses in the current accounting period irrespective of the time of their payments, such as fees for dinar and foreign currency payments, commissions of other banks, etc.

Fee and commission income is recognized in the income statement on accrual basis in the period when the relevant service was provided.

Fees and commissions income and expense that are integral part of effective interest rate are included in the calculation of effective interest rate and accordingly reported within interest income or interest expenses.

4.1.20 Related Parties

Pursuant to IAS 24, a related party is a person or entity that is related to the entity that is preparing its financial statements. For the Bank in particular, related parties are considered to be:

A. The parent company, and entities that constitute for the Bank or the parent company:
- A branch,
- A joint venture.

B. The person and a close member of that person's family, if such person is a member of the key management personnel.

The Bank considers all the members of the Board of Directors and of the Executive Board to be the key management personnel. Close family members of the above mentioned persons are considered to be:
- Spouses or domestic partners of such persons,
- The first degree relatives of that person's spouse or domestic partner, and
- Dependents of that person or dependents of that person's spouse or domestic partner.

In addition to that, the Bank discloses all transactions and outstanding balances with entities which are controlled or jointly controlled by the above mentioned persons. This disclosure concerns stakes and shares of the above mentioned persons in entities that exceed 20%.

4.1.21 Comparative data

To the extent considered necessary, the comparatives are adjusted to facilitate changes in presentation of the current year amounts. The bank began operations in 2015 and therefore no comparative figures for 2014.

4.1.22 Significant accounting estimates and judgments

The Bank, in the context of applying accounting policies and preparing financial statements in accordance with the International Financial Reporting Standards (IFRS), makes estimates and assumptions that affect the amounts recognized as income, expenses, assets or liabilities. The use of estimates and assumptions is an integral part of recognizing amounts in the financial statements that mostly relate to the following:

4.1.22.1 Fair Value of Assets and Liabilities

For assets or liabilities traded in active markets, the determination of their fair value is based on quoted, market prices. In all other cases the determination of fair value is based on valuation techniques that use observable market data to the greatest extent possible. In cases where there is no active market, the fair value is determined using data that are based on internal estimates and assumptions, such as, for example, determination of expected cash flows, discount rates, prepayment probabilities or potential counterparty default.

4.1.22.2 Impairment of Financial Assets

The Bank, when performing impairment tests on loans and receivables, makes estimates in compliance with the amount and timing of future cash flows. Given that these estimates are affected by a number of factors, such as the financial position of the borrower, the net realizable value of any collateral or the historical loss ratios per portfolio, actual results may differ from those estimated. Similar estimates are used in the assessment of impairment losses of securities classified as available for sale or held to maturity.

On the balance sheet date the Bank has no impairment of non-financial assets.

4.1.22.3 Impairment of Non-Financial Assets

The Bank, at each balance sheet date, assesses for impairment the non – financial assets, and in particular property, plant and equipment, investment property and other intangible assets. Internal estimates are used to a significant degree to determine the recoverable amount of the assets, i.e. the higher between the fair value less costs to sell and the value in use.

On the balance sheet date the Bank has no impairment of non-financial assets

4.1.22.4 Income Tax

The Bank recognizes the amounts of current and deferred income tax based on estimates concerning the amount of taxable profits, based on which the amounts of tax expected to be paid or recovered in the current and future periods are determined. Estimates are affected by factors such as the practical implementation of the relevant legislation, the expectations regarding the existence of future taxable profit etc. Future tax audits, changes in tax legislation and the amount of taxable profit actually, may result in tax payments other than those recognized in the financial statements of the Bank.

4.1.22.5 Employee Benefits

Long-term provisions for retirement pays are made based on actuarial valuations that include assumptions regarding the discount rate, future changes of salaries and pensions. Any change in these assumptions affect the amount of liabilities recognized.

4.1.22.6 Provisions and Contingent Liabilities

The Bank recognizes a provision when it estimates that it has a present legal or contractual obligation that can be estimated reliably, and it is almost certain that an outflow of economic benefits will be required to settle the obligation. In contrast, when it is probable that an outflow of resources will be required, or when the amount of liability cannot be measured reliably, the Bank does not recognize a provision, but it provides disclosures for contingent liabilities, taking into consideration their materiality.

The estimation for the probability of the outflow, as well as for the amount of the liability are affected by factors which are not controlled by the Bank, such as court decisions, the practical implementation of the relevant legislation and the probability of default of the counterparty (for the cases related to the exposure to off-balance sheet items).

On the balance sheet date the Bank has no provision for contingent liabilities, such as court decisions, not fulfilling the obligations of the counterparty obligations, etc.

The estimates and judgments applied by the Bank in making decisions and in preparing the financial statements are based on historical information and assumptions which are considered appropriate at present. The estimates and judgments are reviewed on an ongoing basis in order to take into account current market conditions. The effect of any changes in estimates is recognized in the period in which the estimates are revised.

5. Financial risk review

In compliance with the nature of its business activity, the Bank established an adequate risk management system, which pertains to the management of types of risks, and especially so for the most important risks that may arise during operation.

Risk Management Objectives and Principles

The Bank established the risk management process through:
- A specified risk management strategy;
- Clearly defined risk management policies and procedures that include risk identification, measuring, monitoring, reporting and control;
- Adequately established organizational structure that clearly defines the roles and responsibilities of individuals involved in undertaking of risks, risk management and supervision of risk management adequacy;
- Independence of the organizational units tasked with risk management from those tasked with other business activities;
- Effective information system intended for use by the management, which provides information flow from the operational level to top management, as well as the reporting system for any deviations identified;
- Continuous independent supervision of the risk management system.

Responsibilities

The Board of Directors, Supervisory Board, Executive Board, Asset and Liability Committee are responsible for establishing of the system and for the supervision of the risk management system in compliance with the regulations of the National Bank of Serbia, policy and principles of the Bank and risk management best practices.

With the aim to set up a consolidated risk management system and to provide for the functional and organizational independence of the risk management function from the regular business activities, in addition to the legally prescribed management bodies, individual Boards and Committees of the Bank are responsible for risk management, in compliance with the Rules on their operations.

Bodies of the Bank continuously monitor the changes in legal regulations as well, they analyse the impact of such changes to the risk levels on the level of the Bank and undertake measures to bring the operations and procedures with newly adopted regulations within the controlled risk.

In addition to the above, the introduction of new products, activities, lines of business and systems is followed by the required business, market and economic analyses with the aim to determine their impact on the risk portfolio of the Bank.

Bodies of the Bank responsible for risk management jointly establish the risk management principles and methodology, based on the following:

- Regulations and decisions passed by the legislative authorities, and principally by the National Bank of Serbia;
- Risk appetite of the bank adopted as an internal regulation by the Board of Directors of the Bank;
- Needs of the good business practice, with the aim to adequately identify, measure and estimate the risks, as well as to manage the risks to which the Bank is exposed.

Risk Measurement and Reporting

Organizational units responsible for monitoring of individual risk types and other expert services continuously monitor the indicators of individual categories of risks within their specific competencies and perform measuring, control and reporting to the competent Boards/Committees of the Bank, in compliance with the risk management system established by means of the most important internal acts regulating risk management.

Overview of Risk Types

In compliance with the Risk Management Strategy, the Bank has classified the potential operating risks in the following categories:

A. **Credit risk** and risks related to credit risk (concentration risk, country risk, FX credit risk, residual risk)
B. **Liquidity risk**,
C. **Market risk**, interest risk in banking book, foreign exchange risk,
D. **Capital management**.

In addition to the above listed risks, the following risks may arise as well:
- Strategic risk,
- Reputational risk,
- Compliance risk,
- Operational risk,
- Other risks that are difficult to quantify.

5.A. Credit risk

Credit risk is the risk of negative effects on the financial result and capital of the Bank caused by borrower's default on its obligations to the Bank.

The basic goal of credit risk management within the Bank is to reduce the possibility of occurrence of negative effects on the financial result and capital of the Bank due to the failure of the debtors to meet their obligations towards the Bank. In order to control the acceptance of the credit risk and adequate management of such risks, the Bank has established an adequate credit process which includes the approval of placements and credit risk management, which are regulated by Bank's procedures.

The credit risk management process includes:
- identification,
- evaluation and measuring,
- monitoring and
- reporting about the credit risk.

Credit Risk Management

The Bank manages the credit risk from individual borrowers, portfolio risk, transaction risk, i.e., it manages the collaterals separately, through the management of:
- Default risk – the risk of defaulting by the borrower;
- Risk from the changes in asset value – the risk of losses in the value of assets;

- FX credit risk – the risk of defaulting by the borrower due to a significant rise in the foreign exchange rate;
- Concentration risk that originates from the exposure to entities from the high exposures group, as well as the concentration risk that originates from the concentration of exposure to individual risk factors pertaining to: the economic sector, geographical area, product type and loan hedging activities and the similar.

Credit risk is adequately managed through risk identification, measuring, control, monitoring and reporting.

With the aim to achieve an effective credit risk management framework, the Bank has defined the basic components as follows:
- Establishing and supervision of the system by the Board of Directors and senior management,
- Clear allocation of competencies and responsibilities in the management process,
- Adequate implementation of management system and relevant policies and procedures.

The credit risk management process includes the following:
- Risk identification in compliance with the adopted procedures,
- Risk measuring and assessment by using the prescribed methodologies,
- Risk monitoring and control in accordance with the established procedures, as well as the application of relevant risk mitigation techniques, by using the loan hedging instruments,
- Reporting on exposure to credit risk.

Supervision by the Board of Directors and Senior Management

The Board of Directors of the Bank approved the credit risk management strategy and policies. The Board of Directors adopts the risk profile of the Bank and supervises the implementation of the process of adequate credit risk management, to ensure that the total credit risk exposure of the Bank is maintained on a safe level and matched to available capital both under the regular conditions and in crisis and any disturbances in the market.

Credit risk management of the Bank is based on the implementation of the following basic principles:
- Conservative approach to credit risk management,
- Management through defined control levels,
- Credit policy cycles in conjecture with segmentation of clients, products, economic sectors, geographic locations, currencies and maturity dates,
- Focus on the target market in compliance with the strategy,
- Diversification of credit exposure, and
- Risk pricing.

The Executive Board of the Bank, as well as other bodies are responsible for the development and establishing of credit policies and credit administration procedures within the relevant organizational units of the Bank, as a part of the general credit risk management system and for the adequate implementation and permanent supervision of such system.

Prior to the approval of any investment, competent decision-making levels perform assessments of the risk profile of the client/transaction, and following that, the continuous monitoring of the value of receivables and collaterals' values and adequacy is performed.

Limit Setting

The Bank actively participates in the management of its exposure to credit risks by means of defining and setting the exposure limits for individual borrowers and for the group of related borrowers. Adequate limits are determined for specific products and activities. Credit limits are revised from time to time.

Credit Risk Supervision and Control

Supervision of credit risk pertains to continuous supervision of individual loans, including the off-balance sheet exposure to borrowers and supervision of the entire portfolio of the Bank.

The system established for the credit risk supervision includes the following:
- The time dimension of the supervision in accordance with the nature of the credit risk (from daily to quarterly),
- Different supervisory procedures on predefined decision making levels,
- Continuous independent internal control of the lending process,
- Separate credit risk management on the level of clients and on the portfolio level, as well as on the level of transactions,
- Collateral management, and
- Management of risk investments.

The Bank conducts this activity with the aid of a system that ensures daily supervision of the quality of credit portfolio and implements corrective measures if and when the creditworthiness of a client deteriorates.

This system is created to ensure reliable monitoring of placements' servicing in accordance with the specified deadlines, adequacy of impairments, maintenance of the total risk profile within the limits set by the management and compliance with the regulatory limits by the Bank. Credit monitoring system is created to provide support to the senior management in the supervision of the quality of the entire credit portfolio and its trends.

Credit Risk Identification

The credit risk identification is the basic step in the credit risk management aiming to detect credit risk in a timely manner.

The identification of exposure to a specific risk starts at the moment of submitting of the loan application. The analysis of individual placements includes the analysis of the qualitative and quantitative indicators of the client, as well as the identification of other client's risk factors.

The approval process consist of the defined steps which may differ depending on the type of the client, the characteristics, type and the purpose of placement, the security instruments and include following steps:
- The preparation of the proposals for credit placement;
- The collection and verification of the credit documents;
- Credit analysis;
- Risk assessment;
- Placement approval;
- Control of the accompanying documents and other conditions;
- Disbursement of the funds.

Credit Risk Assessment and Measurement

The Bank has defined the mechanism of independent, continuous assessment of credit risk management process. The result of such assessment is documented in an adequate manner, and is a part of the reporting system to the Board of Directors and senior management.

Management of Non-Performing Loans
The Bank has a defined and established system that enables prior identification of non-performing loans where there is a number of acceptable options for corrective measures. As soon as a loan is designated as non-performing, the course of the management of such loan changes and it is included in the implementation of special corrective procedures.

With the aim to reduce the risk of defaulting by the clients, the Bank may undertake the following measures to regulate the receivables:

- Rescheduling and restructuring,
- Activation of collaterals,
- Sales and assignment of receivables,
- Settlements,
- Initiation of court procedures and other measures.

In case that the measures undertaken should fail to produce adequate results, the proposal for permanent write-off of outstanding receivable will be made in the collection procedure on the specified decision-making levels.

The assessment of the credit risk is being performed during the review of the requirements for a specific placement, the requests for the change of conditions, terms of use and repayment of certain loan, as well as during the regular annual report about the business operations of the client. The assessment of the credit risk is based on the analysis of financial situation of the debtor, the timeliness of debtor's settlement of the obligations towards the Bank, qualitative data collected about the client and the quality of collateral instruments.

The process of measuring the credit risk is based on regulatory approach according with the classification of the debtor's receivables, as well as the assessment of the provisions for losses per off-balance positions, in line with the regulations of the National Bank of Serbia.

Credit Risk Mitigation

In order to mitigate the credit risk, during the approval of the placement, security instruments are requested. The amount and type of the requested security instrument depends on the evaluated credit risk of each client. The security conditions that follow each placement depend on the creditworthiness of the debtor, the type and the degree of exposure to the credit risk, the maturity and the amount of placement.

Credit Risk Monitoring

After the approval of the placement, the clients are being monitored through regular and extraordinary monitoring aiming to ensure timely identification of the warning signs.

In order to prevent any increase in the credit risk, monitoring process is established to identify clients for which it is necessary to take measures to prevent their migration from the status of non-problematic clients to the status of clients under intensive monitoring or of problematic clients.

The status of the client is defined based on the combination of the basic indicators (number of days of delay, account freezing, etc.), financial indicators and the professional opinion of the employees involved in the risk management process.

By monitoring the portfolio at the level of the individual placements and at the level of the entire credit portfolio, the Bank performs a comparison against the previous periods, identifies the tendencies and causes of changes in the level of exposure to the credit risk, while trying to maintain adequate provisioning levels, in order to be able to absorb the expected and unexpected credit losses pertaining to the credit portfolio.

Impairment Assessment

Impairment of placements (provisioning) is determined based on the assessment indicating the cash flows that will not be realized, and in principle it is the difference between the carrying amount less the determined uncollectible percentage and the recoverable amount – expected cash flows discounted by using the effective interest rate.

Recoverable amount is the present value of the expected future cash flows (inflows), discounted by using the effective interest rate.

The most important factors taken into account in impairment assessment of a financial asset or a group of financial assets include objective evidence that can include: significant difficulties of the client, non-compliance with the agreed conditions, high probability of bankruptcy or some other change in the organizational and financial status of the client, deteriorating of an active market for the financial asset, etc.

Financial assets subject to impairment assessment are classified in two separate groups: the receivables that are assessed for impairment: (a) individually – for receivables where there is objective evidence of impairment and according to the amount of material receivables and (b) collectively – for receivables that are not assessed individually. Taking into consideration the size and the maturity of the Bank's loan portfolio, the Bank currently does not perform collective assessment.

Individual Assessment

Individual assessment is performed for individual significant receivables where there is objective evidence that the receivables will not be collected by the Bank in the originally agreed amount or within the originally agreed deadlines, or for the receivables where there is objective evidence of impairment.

On the occasion of impairment assessment, the potential for the realization of the business plans of the client, client's capacity to improve their business results in case of any financial difficulties, value at which the collaterals can be realized and time period for collateral realization, availability of any alternative financial support for clients, potential for collection of receivables mature, as well as the time dimension of the expected cash flows are all taken into account.

In cases where it is estimated that the collection from the regular activities of the client will not be possible, the expected inflow from collateral realization is additionally taken into account on the occasion of individual assessment for impairment.

Collective Assessment

Currently the Bank does not apply collective assessment consideration the size and the maturity of the loan portfolio.

Assessment of Provisioning for Off-Balance Sheet Items

Assessment of provisioning for off-balance sheet items (guarantees, avals, letters of credit, etc.) is performed in compliance with the adopted criteria, individually and on collective basis.

Evidence based on which the Bank performs individual impairment assessments of the items of off-balance sheet assets are payments from the Bank accounts for obligations undertaken for guarantees, avals and letters of credit and other off-balance sheet items that can potentially be activated at the expense of the Bank.

Assessment of provisioning for off-balance sheet items on individual basis is performed in the same manner as for the receivables in the balance sheet assets, by using the same software application, bearing in mind that the majority such cases involve an intervention from the part of the Bank, i.e., the transfer of an off-balance sheet item in the balance sheet.

5.A. i. Credit Quality Analysis

The tables below set out information about the credit quality of balance sheet and off-balance sheet

in thousands of dinars	*Note*	Loans and advances to customers 2015	Loans and advances to customers 2014	Loans and advances to banks	Loans and advances to banks 2014
Maximum exposure to credit risk					
Gross amount		510,161	-	201,783	-
Impairment Provision					
Net book value	16, 17	510,161	-	201,783	
Out of which					
Neither past due nor impaired					
Grade 1–3: Low risk		510,161	-	201,783	-
Off balance sheet items					
Neither past due nor impaired					
Grade 1–3: Low risk		**157,524**			
Net book value	27	**157,524**			

The bank at the end of the reporting period, no impairment of financial assets.

5.A. ii. Collateral Held and Other Credit Enhancements

Collateralization of credit exposures serves as an important risk mitigation factor and enhances the incentives for borrowers to repay their financial obligations. Collateral provides additional security and the Bank generally requests that corporate borrowers provide it.

The collateral has to be permitted by law and deemed appropriate by the Credit Committee. The collateral serves as a guarantee that the Bank, as the creditor, can recover the credit exposure and as a means of motivating the borrower to repay the credit exposure.
The Bank makes agreement with the client in which the client agrees to register certain collateral with the Bank in order to cover various credit facilities that the client intends to utilize during the term of validity of the agreement.
The lending decision is primarily based on assessment of the business and the creditworthiness of the borrower and his/her ability to repay the requested credit exposure, as well as on other factors related to credit risk. Nevertheless, the Bank aims to secure its claims against the clients it finances with high-quality collateral.

The Bank will require that the financed asset will serve as collateral for the credit exposure.

The choice of the collateral is closely related to the credit risk assessment, which depends on the financial status of the borrower, the credit exposure amount, the maturity, the purpose of the credit exposure and the manner in which it is to be repaid.

Given that there was no impairment of the posting of impairment as at 31 December 2015, collateral is not used in the calculation of the correction, i.e. no effect on the calculation of collateral impairment.

Collateral in Thousands of dinars	**Market value as at 31 December 2015**	**Market value as at 31 December 2014**
Land	124.059	-
Office building	103.880	-
Deposits	12.163	-
Equipment	25.176	-
Receivables	46.131	-
Pledge on shares	61	-
Corporative guarantee	101.355	-
Total	**412.824**	**-**

5.A. iv. Concentrations of Credit Risk

Exposure to risks per regions, industrial sectors and types of clients is presented in the Tables below, to present the exposure to concentration risk. Depending on the general economic trends and the trends observable in individual industrial sectors, the Bank performs diversification of investments in industrial sectors that are resistant to the influence of the negative economic trends.

		Loans and advances to banks		Loans and advances to customers	
in thousands of dinars	Note	**2015**	**2014**	**2015**	**2014**
Carrying amount	*16, 17*	**201,783**	**-**	**510,161**	**-**
Concentration by sector					
Corporate:		-	-	510,161	-
Agriculture, forestry and fishing		-	-	154,149	-
Mining, manufacturing, water supply, sewerage, waste management and remediation		-	-	196,559	-
Construction		-		11,996	
Wholesale and retail trade, repair of motor vehicles and motorcycles		-		147,457	
Banks		201,783	-	-	-
Total		**201,783**	**-**	**510,161**	**-**
Concentration by location					
Europe		201,783	-	510,161	-
Total		**201,783**		**510,161**	

5.A. v. Impaired Loans

The Bank will assess the impairment of receivables, i.e. the calculation of provisions for balance sheet assets and provisions for losses on off-balance sheet items on an individual basis, until conditions are fulfilled for calculation of impairment on the collective basis (existence of portfolio historical data), in accordance with the methodology for impairment assessment of balance sheet assets and provisions for losses on off-balance sheet items.

The individual assessment of balance sheet assets for impairment include determining the existence of objective evidence of impairment, estimation of the present value of future cash flows, and calculation of the amount of impairment for each individual receivable from the borrower which is included in the assessment.

Objective evidence of impairment of balance sheet assets at individual level exists:

- if the borrower's financial position indicates significant problems in its business operations;
- if there are data on the non-performance of obligations, frequent delays in the repayment of interest and/or principal, or non-compliance with other contractual provisions;
- if due to the borrower's financial difficulties, the Bank changes significantly the terms of repayment of the receivable concerned relative to the those agreed originally;
- if the opening of bankruptcy proceedings against the borrower or any other type of its financial reorganization seems highly likely.

The individual evaluation of the impairment, i.e. the calculation of the impairment on individual basis, is based on the evaluation of the expected time of collection, i.e. the projection of the expected money flow from the collection of receivables. At 31th of December 2015 the Bank had no impairment.

Collateral Management

The Collateral Management Policy regulates in greater detail the methods and procedures for collateral management with the aim to minimize the credit risk for the Bank. The purpose of this Policy is to describe the characteristics of the collaterals accepted by the Bank, as well as to specify the necessary activities within the regular monitoring of collateral acceptance. This document describes the allocation of responsibilities among individual organizational units of the Bank, aimed at efficient performance of the collateral management process.

Collaterals are presented in the financial statements at their fair (as last assessed) value, which is at the same time the subject of continuous monitoring process and periodical assessments. Collateral classification in the overview is performed based on the criteria specified in the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items.

As at 31 December 2015, the Bank had no impairment.

5.B. Liquidity risk

i. Exposure to liquidity risk

Liquidity risk is the potential for the occurrence of certain unfavourable events with adverse effects on the financial result and equity of the Bank, as the inability of the Bank to meet its liabilities due at the time of their maturity, due to the inadequate structure of its sources, i.e. because its placements are not marketable.

The Liquidity risk is the possibility of occurrence of negative effects on financial result and the capital of the bank due to incapability of the Bank to fulfil its matured obligations due to:

Withdrawing of the existing sources of finance, i.e. inability to obtain new sources of finance. Difficult conversion of property into liquid assets due to disturbances on the market.

Liquidity ratio is a ratio between the sum of Bank's liquid first- and second-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

Narrow liquidity ratio is the ratio between the sum of Bank's liquid first-degree receivables, on the one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

The bank's first-degree liquid receivables shall include cash and receivables where the agreed maturity falls within one month from the date of calculation of liquidity ratio, as follows: vault cash, gyro-account balances, gold and other precious metals; funds in the accounts with banks with available credit rating of the chosen credit rating agency equivalent to credit quality 3 or better, determined in accordance with the decision on capital adequacy of banks (investment rank); deposits with the National Bank of Serbia; cheques and other monetary receivables in the process of execution; irrevocable credit facilities approved to the bank; shares and debt securities quoted on the stock exchange. Liquid first-degree receivables of the bank shall also include 90% of the fair value of securities denominated in dinars with no foreign currency clause, issued by the Republic of Serbia with minimum maturity of three months/90 days, which the bank has classified as securities that are traded or securities available for sale. Bank's second-degree liquid receivables shall include other bank receivables falling due within one month from the date of calculation of liquidity ratio.

Receivables classified into D and E categories according to the decision on classification of balance-sheet assets and off-balance sheet items shall not be included in the calculation of the bank's liquidity ratio.

Bank's sight liabilities or liabilities without agreed maturity shall constitute a part of its liabilities as follows: 40% of sight deposits of banks; 20% of sight deposits of other depositors; 10% of savings deposits; 5% of guarantees and other sureties; 20% of unfunded committed irrevocable credit lines. Other Banks liabilities falling due within one month from the date of calculation of liquidity ratio shall be considered bank liabilities with agreed maturity.

The Bank expresses the level of liquidity through the liquidity ratio and narrow liquidity ratio calculated in accordance with the Decision on risks management by banks.
The Bank shall maintain its liquidity level in a way that:

Liquidity ratio:
– equals at least 1.0 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.9 for more than three consecutive business days,
– equals at least 0.8 when calculated for a single business day.

Narrow liquidity ratio:
– equals at least 0.7 when calculated as an average of liquidity ratios for all business days in a month,
– is not lower than 0.6 for more than three consecutive business days,
– equals at least 0.5 when calculated for a single business day.

The Management Board shall establish a system of liquidity risk management and supervises that system in accordance with an acceptable risk profile. Above leadership is responsible for the implementation appropriate policies and procedures in line with the strategic direction and a penchant for risk defined by the Board.

Liquidity risk management in the Bank is defined by Policy and Procedure for liquidity. ALCO committee is responsible for managing of liquidity risk. The Bank uses the following tools for measuring and managing liquidity risk:

- liquidity report with the standard analysis of the liquidity gap,
- liquidity ratios and
- narrow liquidity ratio.

The Asset and Liability Committee has special competencies in the liquidity risk management process, and specifically it:

- Monitors any liquidity gaps in the balance sheet items of the Bank from the aspect of their maturity, liquidity and profitability, based on the reports submitted by relevant organizational units,
- Monitors the ratio of interest income and expenditure to balance sheet items, as well as the ratio of interest rates on assets and on liabilities,
- Monitors the profit and loss items and their effect on the balance sheet of the Bank,
- Monitors the structure and scope of off-balance sheet items,
- Analyses the quality of balance sheet assets from the aspect of collectability of receivables,
- Analyses the structure of assets and liabilities from the aspect of the volume and share of the interest-bearing assets/liabilities,
- Analyses the exposure of the Bank portfolio to the credit risk,
- Monitors the realization of planned activities, certain operational indicators, as well as the market position of the Bank,
- Considers the proposals for any new products/projects (as per the applications submitted by the competent organizational units or bodies of the Bank),
- Considers the adequacy of information support for the implementation of activities of asset and liability management,
- Reports to the Board of Directors and proposes measures for the improvement of certain activities in relation to the structure and quality of balance sheet items and for the proactive approach in risk management.

The Liquidity Risk Management Strategy, includes the monitoring of liquidity risk in compliance with the following principles:

- Adjusting the structure of assets and liabilities according to their maturity and currencies,
- Diversification of financing sources as per their maturity and currencies,
- Ensuring access to interbank market of currencies and capital,
- Establishing of adequate liquidity provisions' levels.

Liquidity risk management, as a part of the Bank management, includes the systems for identification, measuring, supervision and control of Bank exposure to liquidity risk. The Bank performs timely identification and quantification of primary sources of liquidity risk for the Bank on transaction level and on the levels of credit and deposit portfolios, under the regular conditions for operation, as well as under conditions of higher risk and market disturbances, as well as on the occasion of approval of new business processes, products and activities.

The independent market risk department performs independent monitoring of liquidity risk exposure by monitoring the compliance with the established system of limits. The Bank manages the liquidity risk under the actual operating conditions, extraordinary conditions and on the occasion of introduction of new business processes, products and activities.

Liquidity ratio	**2015**	**2014**
At 31 December	62.41	-
Average for the period (December)	52.32	-
Maximum for the period (December)	68.39	-
Minimum for the period (December)	20.71	-

Narrow liquidity ratio		
At 31 December	62.41	-
Average for the period (December)	47.72	-
Maximum for the period (December)	63.38	-
Minimum for the period (December)	17.27	-

ii. Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining maturities of the Bank's financial liabilities and financial assets.

31 December 2015 in thousands of dinars	*Note*	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Financial asset by type								
Cash and placements to NBS	*15*	1,147,386	1,147,386	1,147,386				
Loans and advances to banks and fin. institution	*16*	201,783	201,783	201,783	-	-	-	-
Loans and advances to customers	*17*	510,161	513,239	5,860	43,469	165,682	191,885	106,343
		1,859,330	**1,862,408**	**1,355,029**	**43,469**	**165,682**	**191,885**	**106,343**
Financial liability by type								
Deposits and liabilities from banks, other fin. inst. and NBS	*21*	82	82	82				
Deposits from customers	*22*	76,939	76,939	64,805	-	-	-	12,134
Subordinated liabilities	*23*	608,130	608,130	-	-	-	-	608,130
		685,151	**685,151**	**64,887**	**-**	**-**	**-**	**620,264**
Liquidity gap		**1,174,179**	**1,177,257**	**1,290,142**	**43,469**	**165,682**	**191,885**	**(513,921)**

iii. Liquidity reserves

To use Risk liquidity management, the Bank formed liquidity reserves. The bank holds liquidity reserves in the form of cash, equivalents cash and / or placing the National Bank of Serbia.

Liquidity reserves

in thousands of dinars	**2015** **Amount**	**2014** **Amount**
Balances with central banks	1,137,006	-
Cash and balances with other banks	207,297	-
Total liquidity reserves	**1,344,303**	**-**

C. Market risk

Market risks – the possibility of occurrence of negative effects on financial result and the capital of the Bank due to changes in the value of balance sheet items and off-balance items of the Bank resulting from the movement of prices on the market.

Include the interest rate risk, foreign exchange risk, price risk of debt and equity securities and commodity risk. The Bank has exposure to interest rate risk and foreign exchange risk.

Interest rate risk is the Bank's exposure risk to the adverse change of interest rates; ALCO committee is responsible for managing of market risks.

The foreign exchange risk is the possibility of occurrence of negative effects on financial result and the capital of the bank due to changes in the foreign exchange rate.

ALCO Committee is responsible for managing market risks.

Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial result and equity of the Bank due to the variations in interest rates. The interest rate risk occurs in cases where there are discrepancies between the items that are subject to interest rate adjustments over a certain period.

The Bank controls the interest rate risk by monitoring the ratio of interest-bearing assets and liabilities for which interest is paid and their share in the total assets, i.e. liabilities, through the management of:

- Repricing risk,
- Risk of economic value of capital,
- Basis risk,
- Optionality, and
- Yield curve risk.

Revenue Forecasts
The Bank manages the interest risk by analysing the liquidity gap between revenues and expenditure.

Economic Value Forecasts
Net present value of capital is the present value of future cash flows. In economic value forecasts, the potential for long-term impact of the interest rates on the capital of the Bank is taken into account.

The interest rate risk occurs due to (1) the different timings of interest rate change and cash flow; (2) changes in the correlation rate between different yield curves that impact the activities of the Bank; (3) changes in the correlation rate in maturity classes, and (4) options related to interest embedded in the products of the Bank.

The risk from the change of interest rates is measured and monitored by analysing the risk of exposure to the changes in interest rates, which shows the structure and the level of interest-sensitive assets and interest-sensitive liabilities in different maturity intervals.

 TRANSLATION

C. Market risk (continued)

ii. Exposure to interest rate risk – Non-trading portfolios

The following is a summary of the Bank's interest rate gap position of financial assets and financial liabilities of the Bank, from the interest rate perspective, relating on non-trading portfolios.

31 December 2015 In thousands of dinars	**Note**	**Carrying amount**	**Less than 1 month**	**1-3 month**	**3–12 months**	**1–5 years**	**More than 5 years**	**Non interest bearing ***
Cash and placements to NBS	15	1,147,386	1,033,103	-	-	-	-	114,283
Loans and advances to banks and fin. instit.	16	201,783	-	-	-	-	-	201,783
Loans and advances to customers	17	510,161	362,446	33,333	116,667	-	-	(2,285)
		1,859,330	**1,395,549**	**33,333**	**116,667**	**-**	**-**	**313,781**
Deposits and liabilities from banks, other fin. inst. and NBS	21	82	-	-	-	-	-	82
Deposits from customers	22	76,939	-	-	-	-	-	76,939
Subordinated liabilities	23	608,130	-	-	608,130	-	-	-
		685,151	**-**	**-**	**608,130**	**-**	**-**	**77,021**
Interest rate risk gap		**1,174,179**	**1,395,549**	**33,333**	**(491,463)**	**-**	**-**	**236,760**

* Negative amount because accrued liabilities (disbursement fee)

The Bank is exposed to the changes in levels of market interest rates that impact its financial position and cash flows. As the result of these changes, the interest rate margin can increase or decrease.

Interest rates are based on market interest rates and the Bank performs adjustments of interest rates. The interest rate risk management activity is aimed at achieving optimum net income from interest, maintenance of market interest rate on a consistent level, in compliance with the business strategy of the Bank.

ALCO manages the liquidity gaps of assets and liabilities based on: the macroeconomic analyses and forecasts; forecasts of conditions for achieving liquidity, as well as based on the analysis and forecasts of the market trends in interest rates.

Interest rate risk is the adverse change in the price of active interest rates compared against the level of passive interest rates, as well as the potential for the reduction of the optimum difference between the average active and passive interest rates.

C. Market risk (continued)
ii. Exposure to interest rate risk -Non-trading portfolio (continued)

The table below shows the impact of the effect of potential changes interest rate on income of the Bank as at 31 December 2015.

The effects of potential changes in interest rates are related to interest bearing assets and liabilities in the balance sheet.

Risk calculation illustrates the effect of the interest rate on interest-sensitive assets and passive. The scenario includes a 50BP parallel rise and fall and 100BP parallel growth and falling interest rates

	Effect on interest earning (next 1 Year) Thousands of dinars					
in thousands dinars		Increasing of 50 BP			Decreasing of 50 BP	
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	5,006	(170)	5,176	(5,006)	170	(5,176)

	Effect on interest earning (next 1 Year) Thousands of dinars					
		Increasing of 100 BP			Decreasing of 100 BP	
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	10,011	(340)	10,351	(10,011)	340	(10,351)

	Effect on economic value of equity in thousands of dinars					
		Interest increase 50 BP			Interest decreasing of 50 b.p.	
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	(466)	(1,005)	539	466	1,005	(539)

	Effect on economic value of equity					
		Increasing of 100BP Interest increase			Decreasing of 100BP Interest decrease	
	Total	EUR	RSD	Total	EUR	RSD
31 December 2015	(932)	(2,009)	1,078	932	2009	(1,078)

C. Market risk (continued)

iii. Exposure to currency risks

Foreign currency risk is the risk from the negative effects of adverse changes in foreign exchange rates to the financial result and equity of the Bank. It pertains to the impact of the inauspicious trends in foreign exchange rates on the value of open foreign currency position.

Foreign Currency Position:

31 December 2015 *In thousands of dinars*	**EUR** (including EUR indexed)	**USD**	**RSD**	**Total**
Cash and placements to NBS	68,970	1,068	1,077,348	**1,147,386**
Loans and advances to banks and fin. instit.	193,675	8,108	-	**201,783**
Loans and advances to customers	362,975	-	147,186	**510,161**
Intangible assets	-	-	217,825	**217,825**
Property, plant and equipment	-	-	163,370	**163,370**
Other assets	-	-	8,202	**8,202**
Total assets	625,620	9,176	1,613,931	**2,248,727**
Deposits and liabilities from banks, other fin. inst and NBS	53	-	29	**82**
Deposits from customers	13,015	7,754	56,170	**76,939**
Subordinated liabilities	608,130	-	-	**608,130**
Provisions	-	-	2,892	**2,892**
Deferred tax liabilities	-	-	11,910	**11,910**
Other liabilities	-	-	19,232	**19,232**
Capital	-	-	1,529,542	**1,529,542**
Total liabilities	621,198	7,754	1,619,775	**2,248,727**
Financial instruments-off balance				
Net foreign currency position 31.12.2015	**4,422**	**1,422**	**(5,844)**	

With the aim to protect against the foreign exchange risk, the Bank monitors the foreign exchange rates' trends in the financial market on the daily basis, implements the policy of low exposure to the foreign exchange risk. The Asset Management Division monitors the trends in the foreign exchange market on the daily basis and manages the foreign exchange position of the Bank in its entirety and per individual significant currencies.

Asset and Liability Committee proposes measures to the Executive Board of the Bank for adjustments of FX assets and liabilities to provide for favourable foreign exchange position on each currency segment. An independent market risk department performs independent analysis of the foreign exchange management process through monitoring of the compliance with the established system of limits.

Foreign exchange risk management is supplemented with the monitoring of:

- Impact of increase/decrease of FX items of assets/liabilities to the open position and foreign exchange risk indicator, and
- Sensitivity of income statement of the Bank to different scenarios of variations in foreign exchange rates. Sensitivity of income statement is the effect of assumptions regarding the changes in foreign exchange rates to net income from fluctuations in foreign exchange rates.

C. Market risk (continued)
iii. Exposure to currency risks

In thousands of dinars	**2015 EUR**	**2015 USD**
Net foreign currency exposure:		
USD		1,422
EUR	4,422	

The effect of increasing the rate of 10% on net income

In thousands of dinars	**EUR**	**USD**
Net foreign currency exposure:		
USD		213
EUR	663	

The effect of reducing the rate of 10% on net income

In thousands of dinars	**EUR**	**USD**
Net foreign currency exposure:		
USD		(213)
EUR	(663)	

The effect of growth rate of 10% of the economic value of capital: 0.05%.
The effect of reducing rate of 10% of the economic value of capital: (0.05%).

iv. Other market risks

Other market risks include the price risk on debt securities, price risk on equity securities and – the commodity risk, in compliance with the Decision regulating the Bank's capital adequacy.

During 2015, given the nature of its operations and the fact that it had no items in the trading book, the Bank was not exposed to any other market risks.

Once it introduces products exposed to this kind of risk, the Bank shall previously provide the prerequisites for such products (HR-technical equipment, written procedures for daily monitoring of trading book items, procedures for measuring of capital requirements for these risks, and item valuation methods in financial instruments included in calculation and subject to prior approval of the National Bank of Serbia, etc.) subject to consent of the Bank's competent boards.

Operational risk

The operational risk is the risk of negative effects on the Bank's financial result and capital due to failures in employees' performance, inadequate internal procedures and processes, inadequacy of information and other systems management in the Bank, and any other unforeseeable external events.

In the operational risk management, the Bank implements quantitative and qualitative measures based on collection of data on losses arising from operational risk, per categories defined according to sources of losses, and based on adopted internal acts.

The role of the operational risk management is to identify, estimate, control and mitigate the possibilities for the arising and impact of operational risks and losses. The Bank cannot eliminate all operational risks, but it may use the process of operational losses recording and analysis to identify flaws in its processes, products and procedures, and to improve them in order to reduce the frequency and negative effects of operational losses on Bank's operations and profitability. The Bank manages the operational risk so as to minimize the effects of adverse and unsuccessful internal processes, people and systems, or external events, on the Bank's financial result.

Database on events which gave rise or might have given rise to a loss, according to the prescribed limit, as a consequence of operational risk per categories defined according to sources of losses, shall be filled by entering the data based on identified risks per types of operations, by persons in charge of operational risk management.

Bank's exposure to operational risks shall be particularly attentively treated when introducing new products, activities, lines of business or systems, when required analyses are to be made by organisational units which participate in introduction of new products, activities, lines of business or system, and the Risk Management Department which is directly in charge of operational risk management.

Bank's investment risks

The Bank's investment risks include the risks of investing in capital of other legal entities and fixed assets. In compliance with the regulations of the National Bank of Serbia, the amount of Bank's investments and the amount of regulatory capital are monitored, to ensure that the Bank's investment in any non-financial sector entity does not exceed 10% Bank's capital, and that the Bank's total investments in non-financial sector entities and in Bank's fixed assets do not exceed 60% Bank's capital. The exposure to the risk of Bank's investments in other legal entities and fixed assets is monitored by way of informing the organisational unit or body of the Bank in charge of fixed assets procurement and investments in legal entities of the current status of exposure and amount of capital, in order to act timely in accordance with the set limits.

In 2015, the Bank took care of compliance of investment risks and conducted appropriate activities to ensure the compliance of investments with the indicators stipulated by the National Bank of Serbia. Additional monitoring of the Bank's investment risks indicators is performed in risk management division, finance division and compliance control functions, reported to the Bank's management bodies. The Bank has no items under investment property.

Exposure risk

The Bank's exposure risks include the risks of Bank's exposure to a single entity or to a group of related entities, as well as the risks of Bank's exposure to an entity related to the Bank. Monitoring of the Bank's exposure to the risk of exposure to a single entity or a group of related entities, and to entities related to the Bank, is performed at the moment of a request initiation, at the moment of financing, and after completed financing. Monitoring of Bank's exposure to this risk is a mandatory part of procedures in the investment approval phase, meaning that the board which approves of the investment avails with information concerning the total level of Bank's exposure to a client or to a group of related entities against the Bank's total capital.

In accordance with regulations and Bank's internal acts, the competent board issues approval on Bank's exposure to the exposure risk per individual clients or per groups of related entities and entities related to the Bank. Additional monitoring of the Bank's exposure indicators is performed in risk management division and finance division, with reporting to the Bank's management bodies.

Country risk

The risk related to the country of origin of the entity to which the Bank is exposed implies negative effects which might influence its financial result and capital, due to Bank's inability to collect debts from such entity for reasons resulting from political, economic or social conditions in such entity's country of origin.

The Bank's placements are mostly to customers from the Republic of Serbia, while being exposed to the country risk mostly concerning the part of funds held at times on accounts with foreign banks. The Bank's policy of country risk management is to continuously monitor the exposure to the country risk against adopted limits, defined according to the country rating as determined by competent institutions (OECD), with regular reporting of existing exposures to the management bodies.

D. Capital management
i. Regulatory capital

in thousands of dinars	*Note*	**Basel II 2015**
Ordinary share capital	26	1,790,700
Retained earnings		(261,158)
– Intangible assets	18	(217,825)
–Required reserve for estimated losses on balance sheet assets and off-balance sheet items	10	(24,772)
Total share capital		1,286,945
Qualifying subordinated liabilities	23	608,130
Total regulatory capital		1,895,075

The bank continuously manages the capital in order to:
- ensure compliance with capital requirements defined by the National Bank of Serbia (NBS),
- maintain an adequate level of capital for continuous operation by the "going concern" principle,
- maintain the capital base which enables coverage of risks it is exposed to while ensuring further business development.

Capital adequacy, as well as the use of the Bank's capital is monitored on monthly basis by the Bank management. The Bank manages its capital structure and may make adjustments in the light of changes in economic conditions and risk characteristics inherent in its activities.

The National Bank of Serbia has defined the following limits for capital:
- Minimum monetary amount of capital of EUR 10 million; and
- Capital adequacy ratio not lower than 12%.

In accordance with the Decision on Capital Adequacy of Banks, the methodology of capital adequacy calculation has been determined.

Accordingly, the Bank's total regulatory capital consists of the core capital and supplementary capital and deductible items:
- The core capital is comprised of: share capital for ordinary shares, share issuing premiums, reserves from profit and bank's profit, and the deductibles from the core capital are: losses from previous years,
- Supplementary capital is comprised of: part of the bank's positive revaluation reserves,
- Deductibles from the bank capital are the shortfalls in impairments and provisions against the special reserve for expected losses.

- Risk-weighted balance sheet and off-balance sheet assets are determined in compliance with prescribed risk weights for all types of assets. The value the items of balance sheet assets, for the purpose of calculation of credit risk-weighted assets, equals the gross book value of such items minus the impairment and required reserve for estimated losses. The value of off-balance sheet items, for calculation of credit risk-weighted assets, equals the gross book value of such items minus provisions for losses in balance sheet assets and required reserve for estimated losses, multiplied by the following conversion factors:
  1) 0% – if an off-balance sheet item is classified into low risk category;
  2) 20% – if an off-balance sheet item is classified into moderate risk category;
  3) 50% – if an off-balance sheet item is classified into medium risk category;
  4) 100% – if an off-balance sheet item is classified into high risk category.

  The Bank classifies the exposures from the banking book, exposures from the trading book for which it is obliged to calculate the capital requirements of counterparty risks, and other exposures from the trading book, provided that the conditions specified in the a/m Decision are fulfilled, into one of the following categories, and thereby estimates the risk of:

  1) Exposure to countries and central banks;
  2) Exposure to territorial autonomies and local self-government units;
  3) Exposure to public administrative bodies;
  4) Exposure to international development banks;
  5) Exposure to international organizations;
  6) Exposure to banks;
  7) Exposure to corporates;
  8) Exposure to natural persons;
  9) Exposure secured by mortgage on real estate property;
  10) Past due receivables;
  11) High-risk exposures;
  12) Exposure based on covered bonds;
  13) Exposure from investments in open-end investment funds;
  14) Other exposures.

The Bank has established and continuously developed the process of internal capital adequacy assessment.

6. Fair values of financial instruments

A. Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and liabilities

The Bank's business policy is to disclose information on the fair value of assets and liabilities when there is official market information and when the fair value significantly differs from the book value. During 2015, the Bank did not have any items under securities. The Bank is not significantly exposed to the risk of changes in the fair value.

The market price, provided that there is an active market, is the best proof of a financial instrument's fair value. However, market prices are not available for a number of Bank's financial assets and liabilities. Therefore, when market prices of financial instruments are unavailable, the fair value of assets and liabilities is estimated using the present value or other valuation techniques based on currently prevailing market conditions.

In the Republic of Serbia, the market experience is insufficient, the same as the stability and liquidity in purchase and sale of debts and other financial assets and liabilities, since the official market information is not available at all times. Consequently, the fair value is impossible to be reliably determined in the absence of an active market.

The following methods and assumptions were used for the estimate of the fair value of Bank's financial instruments on the day of 31 December 2015:

– The fair values of cash and cash equivalents, short-term deposits, other loans and advances and other assets, transaction deposits, trade payables and other short-term liabilities, match their respective book values primarily due to short-term maturity of such financial instruments.

– The Bank's financial instruments carried at amortized cost generally mature in short-term, using floating interest rate which reflects current market conditions. Accordingly, the Bank finds that the values at which the specified financial instruments are carried match their respective market values.

– The fair value of loans and investments in customers equals their book value, reduced by adjustment for impairment. In 2015, the Bank has just started the loan activities and has no impaired loans, and consequently no provisions for doubtful debts.

– Deposits of banks and customers are mostly demand deposits or short-term deposits with floating interest rates, therefore the Bank's management finds that their values recognized in the balance sheet match their market values.

In the opinion of the Bank's management, the amounts in the enclosed financial statements reflect the value which is, under the circumstances, the most credible and useful for the reporting purposes.

E. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments

31 December 2015 *In thousands of RSD*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and placements to NBS	-	1,147,386	-	1,147,386	1,147,38 6
Loans and receivables from banks and other financial institutions	-	201,783	-	201,783	201,783
Loans and advances to customers	-	-	488,967	488,967	510,161
Held-to-maturity investment securities	-	-	-	-	-
Liabilities					
Deposits and other liabilities to banks, other financial institutions and central bank	-	-	82	82	82
Deposits from customers	-	-	75,599	75,599	76,939
Debt securities issued	-	-	-	-	-
Subordinated liabilities	-	-	578,789	578,789	608,130

As at the balance sheet date, the Bank did not have financial instruments measured at fair value..

7. Net interest income

In thousands of dinars	**5/2 – 31/12/2015**	**2014**
a) Interest income		
Deposited excess liquidity with NBS	7,193	-
Mandatory reserves in dinars with NBS	1	-
Short-term loans to corporates	1,669	-
Long-term loans to corporates	562	-
Total interest income	**9,425**	-
б) Interest expense		
Foreign currency accounts with NBS	(91)	-
Subordinated liabilities of foreign legal entities, in foreign currency	(453)	-
Short-term special purpose deposits of legal entities in dinars	(52)	-
Total interest expense	**(596)**	-
Net interest income	**8,829**	-

8. Net fee and commission income

In thousands of dinars	5/2 – 31/12/2015	2014
a) Fee and commission income		
Fees and commissions on guarantees	720	-
Income from fees from non-residents	431	,
Fees from legal entities from domestic payment operations	237	-
Other	12	
Total fee and commission income	**1,400**	-
b) Fee and commission expenses		
Fees and commissions to NBS	(1,054)	-
Fees and commissions to other banks	(42)	-
Other	(10)	
Total fee and commission expenses	**(1,106)**	-
Net fee and commission income	**294**	-

9. Net trading income

In thousands of dinars	5/2 – 31/12/2015	2014
Income from foreign exchange differences	32,680	-
Income from effects of currency clause	690	-
Trading income	**33,370**	**-**
Expenses in foreign exchange differences	(27,434)	-
Expenses on effects of currency clause	(66)	-
Trading expenses	**(27,500)**	**-**
Net trading income	**5,870**	**-**

Net income from foreign exchange differences primarily relates to positive exchange differences on conversion of the initial capital of the Bank due to changes in the exchange rate between the date of payment of the initial capital and the conversion date and payment dinar equivalent to the giro account of the Bank.

10. Net expenses for impaired financial assets and credit risk-weighted off-balance sheet items

a) Impairment costs

The Bank just started its loan activity in 2015 and has no impaired loans. Accordingly, the Bank did not have any expenses for impaired financial assets and credit risk-weighted off-balance sheet items.

b) Special reserve for estimated losses

Based on categorization of placements determined in conformity with the regulations of the National Bank of Serbia on the day of 31 December 2015, the required reserve for estimated losses based on total exposure of the Bank to the credit risk is assessed:

	In thousands of dinars For the year ending on 31 December 2015	2014
Required reserves from gains for estimated losses in balance-sheet assets and off-balance sheet items:		
- balance sheet placements	16,990	-
- off-balance sheet items	7,782	-
	24,772	**-**

As at 31 December 2015, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to 24,772 thousand dinars.

11. Personnel expenses

In thousands of dinars	5/2 – 31/12/2015	2014
Wages and salaries	(115,870)	-
Social security contributions	(9,824)	-
BoD members remuneration	(8,883)	-
Personnel expenses	**(134,577)**	**-**

12. Depreciation/amortization expenses

	5/2 – 31/12/2015	2014
In thousands of dinars	(10,300)	-
Depreciation of real estate property, plants and equipment	(10,787)	-
Amortization of intangible assets	**(21,087)**	-

13. Other expenses

In thousands of dinars	5/2 – 31/12/2015	2014
Facility expenses	(43,065)	-
ICT expenses	(14,451)	-
Professional services	(21,979)	-
Marketing	(12,931)	-
Insurance expenses	(735)	-
Deposit insurance agency	(3,635)	-
Other administrative expenses	(11,780)	-
Total other expenses	**(108,576)**	**-**

The Bank pays the rent to legal entities for its business premises under concluded lease agreements. The agreed lease periods are five years. The rent includes currency clause, and it is payable on monthly basis. Costs of business premises lease in 2015 amounted to the total of 29,611 thousand dinars. In this category of costs, there are also the costs of maintenance of the premises (as defined in the Lease Agreement) as well as utility costs and all other expenses that are directly related to the use of the premises of the Bank.

Marketing costs are comprised of printing of promotional products, designing of marketing concepts and alike, at the total amount of 12,931 thousand dinars. Insurance costs include, apart from physical security of the buildings, the employees and deposits insurance, in conformity with the Law on Deposit Insurance. Total costs of deposits insurance for 2015 amount to 3,635 thousand dinars.

Total costs of information technology in 2015 amounted to 14,451 thousand, which include maintenance and development costs of software and hardware, telecommunications costs, internet costs, etc.

16. Income Tax

a) Income tax components

In thousands of dinars

	31 December 2015	31 December 2014
Deferred tax income/(expense) of the period	(11,910)	-
	(11,910)	**-**

b) Reconciliation of income tax and the product of loss before tax multiplied by applicable tax rate

In thousands of dinars

	31 December 2015	31 December 2014
Profit/(Loss) before tax	(249,248)	-
Tax calculation at 15% rate	(37,387)	-
Recognized tax expenses in current year	47,691	-
Tax effects of expenses recognized in tax balance	(10,304)	-
Effect of changes in deferred tax assets and liabilities	(11,910)	-
Deferred tax liabilities	**(11,910)**	**-**
Effective tax rate	***4.78%***	**-**

Deferred tax liabilities relating to temporary differences between the carrying value of fixed assets and intangible assets and their tax base, due to the application of different rates of depreciation and revaluation of fixed assets. On balance the ledgers were recorded deferred tax liabilities in the amount of 11,910 thousand dinars.

d) Overview of tax loss carryforwards from preceding periods

Year of loss	Amount of loss	Amount of used loss	Remaining carryforward loss	Carryforward year
2015	317,942	-	317,942	2020
Total	**317,942**	**-**	**317,942**	

According to the Corporate Income Tax Law of 27 March 2010, the time limit for tax loss carryforward is shortened from 10 to 5 years. The Bank did not recognize the carried forward tax losses as deferred tax assets on 31 December 2015, due to uncertainty of income earning in the following years against which these losses could be used.

e) Deferred tax components

On the day of 31 December 2015, deferred taxes were calculated and corresponding bookings were entered. The deferred tax components are as follows:

(377,137)	Book value of other assets subject to depreciation
295,262	Net book value according to tax regulations
(81,875)	**Taxable temporary difference**
(12,281)	**Deferred tax liability at 15% rate**
2,474	Provisions for retirement pay
371	**Deferred tax assets at 15% rate, booked**

Summary of deferred taxes

(12,281)	Deferred tax liabilities
371	Deferred tax assets
(11,910)	**Net deferred tax liabilities**

Recognized in books of accounts

(12,281)	Deferred tax liabilities
371	Deferred tax assets on provisions for retirement
(11,910)	Closing balance on 31 December

15. Cash and cash equivalents

In thousands of dinars	**31/12/2015**	**31/12/2014**
Gyro account	71,728	-
Cash on hand in dinars	5,358	-
Deposited excess liquidity with NBS	1,000,261	
RSD cash	**1,077,347**	-
Cash on hand in foreign currency	5,021	-
Mandatory reserve in foreign currency with NBS	65,018	-
Foreign currency cash	**70,039**	-
Balance on 31 December	**1,147,386**	-

The dinar mandatory reserve is the minimum dinar reserve allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015), stipulating that banks shall calculate the mandatory reserve at 5% rate on the dinar base portion comprised of liabilities maturing in less than two years and/or 730 days, and 0% on the dinar base portion comprised of liabilities maturing in more than two years and/or 730 days, on the amount of daily average of reservable dinar liabilities in preceding calendar month, allocated to their respective gyro accounts with the National Bank of Serbia.

The dinar base for calculation of the mandatory reserve is comprised of the daily average of reservable dinar liabilities in preceding calendar month, excluding the currency clause-indexed dinar liabilities.

Dinar liabilities are comprised of liabilities in respect of dinar deposits, credits and securities, and other dinar liabilities excluding dinar deposits received under transactions performed by the bank on behalf and for the account of third parties, that are not in excess of the amount of investment made from such deposits.

The National Bank of Serbia pays interest to banks on the amount of average daily balance of allocated dinar mandatory reserve in the accounting period not exceeding the amount of gross calculated dinar mandatory reserve, for all days of the accounting period – at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the implementation of monetary policy.

accounting period an average daily balance of allocated dinar mandatory reserve at the amount of calculated dinar mandatory reserve. The calculated dinar mandatory reserve for December 2015 was 32,842 thousand dinars and was compliant with the aforementioned Decision of the National Bank of Serbia. The interest rate on the amount of allocated dinar mandatory reserve during 2015, on annual level, amounted to:

- from January to the end of December - 2.50%;
- in October – 2.00% and
- in November and December – 1.75%.

The required foreign currency reserve is the minimum reserve in foreign currency allocated in compliance with the Decision of the National Bank of Serbia on Bank's Mandatory Reserve with the National Bank of Serbia ("Official Gazette" of the Republic of Serbia nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012,107/. 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015) stipulating that banks shall calculate the foreign currency mandatory reserve at the rate of:

- 20% – on the foreign currency base portion comprised of liabilities maturing in less than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed dinar liabilities maturing in less than two years and/or 730 days,
- 13% – on the foreign currency base portion comprised of liabilities maturing in more than two years, and/or 730 days and, exceptionally, at 100% rate for the foreign currency base portion comprised of currency clause-indexed dinar liabilities maturing in more than two years and/or 730 days.

The Executive Board of the National Bank of Serbia, at its session held on 10 September 2015, adopted the *Decision on Amending the Decision on Bank's Mandatory Reserve with the National Bank of Serbia* whereby the foreign currency mandatory reserve rates are reduced by one percentage point per each of the forthcoming six accounting periods. That meant that starting from calculation on 17 February 2016 (according to the average balance for January 2015), the respective rates of the foreign currency mandatory reserve on liabilities maturing in less than two years would be 20% instead of 26%, and on those maturing in more than two years 19% instead of 13%.

The above rates changed during 2015 by the following schedule:

- According to the average balance of deposits for **August 2015** (calculation on 17 September 2015) – at the rate of **25%**, for maturity up to 730 days), and **18%**, for maturity over 730 days),

- According to the average balance of deposits for **September 2015** (calculation on 16 October 2015)- at the rate of **24%**, for maturity up to 730 days) and **17%**, for maturity over 730 days),

- According to the average balance of deposits for **October 2015** (calculation on 17 November 2015)- at the rate of **23%**, for maturity up to 730 days) and **16%**, for maturity over 730 days),

- According to the average balance of deposits for **November 2015** (calculation on 17 December 2015)- at the rate of **22%,** for maturity up to 730 days) and **15%**, for maturity over 730 days),

- According to the average balance of deposits for **December 2015 -** (calculation on 15 January 2016) at the rate of **21%**, for maturity up to 730 days) and **14%**, for maturity over 730 days).

Foreign currency liabilities are the liabilities in respect of foreign currency deposits, credits and securities and other foreign currency liabilities, as well as deposits, credits and other foreign currency funds received from abroad under transactions performed by the bank on behalf and for the account of third parties.

The bank allocates the mandatory reserve calculated on the foreign currency base to the foreign currency account of the National Bank of Serbia. The bank is obliged to maintain throughout an accounting period the average daily balance of allocated foreign currency mandatory reserve at the amount of calculated foreign currency mandatory reserve. The National Bank of Serbia does not pay any interests on the amount of achieved average balance of allocated foreign currency reserve. The foreign currency base for calculation of the mandatory reserve is comprised of the daily average reservable balance of foreign currency liabilities in the preceding calendar month and the average daily reservable balance of currency clause-indexed dinar liabilities in the preceding calendar month.

The bank which achieved the average daily balance of allocated foreign currency mandatory reserve at the amount in excess of the calculated one – pays to the National Bank of Serbia the interest on the amount of difference between the achieved daily balance of allocated foreign currency mandatory reserve and calculated foreign currency mandatory reserve, for all days of the accounting period, at the interest rate set by the decision on interest rates applied by the National Bank of Serbia in the procedure of implementing the monetary policy. Daily average balance of allocated foreign currency mandatory reserve in the accounting period exceeds the calculated foreign currency mandatory reserve in the period, if it amounts to more than 100.49% of the calculated foreign currency mandatory reserve for the period.

On the day of 31 December 2015, the Bank's foreign currency mandatory reserve was compliant with the a/m Decision of the National Bank of Serbia.

An overview of changes in foreign currency mandatory reserve rates per accounting periods in 2015 is provided here below:

Initial rate validity period	**Foreign currency MR rates**		**Notes**
	General rate	Special rates	
18/12/2014-17/01/2015	27%	-	27% on liabilities maturing in less than two years
	20%		20% on liabilities maturing in more than two years
18/01/2015-17/02/2015	26%	-	26% on liabilities maturing in less than two years
	19%		19% on liabilities maturing in more than two years
18/09/2015-17/10/2015	25%	-	25% on liabilities maturing in less than two years
	18%		18% on liabilities maturing in more than two years
18/10/2015-17/11/2015	24%	-	24% on liabilities maturing in less than two years
	17%		17% on liabilities maturing in more than two years
18/11/2015-17/12/2015	23%	-	23% on liabilities maturing in less than two years
	16%		16% on liabilities maturing in more than two years
18/12/2015-17/01/2016	22%	-	22% on liabilities maturing in less than two years
	15%		15% on liabilities maturing in more than two years
18/01/2016-17/02/2016	21%	100%	21% on liabilities maturing in less than two years
	14%		14% on liabilities maturing in more than two years
			100% on foreign currency base portion comprised of foreign currency clause-indexed dinar liabilities maturing in less than two years and more than two years

16. Loans and advances to banks and other financial institutions

In thousands of dinars	31/12/2015	31/12/2014
Regular foreign currency accounts in foreign banks	196,918	-
Cash accounts with the Central Securities Register	4,865	-
Balance on 31 December	**201,783**	**-**

17. Loans and advances to customers

In thousands of dinars	31/12/2015	31/12/2014
Receivables from loans	512,445	-
Receivables from interests and fees	793	-
Total	**513,238**	**-**
Deferred loan origination fee	(3,077)	-
Impairment provision for loans and advances to customers	-	-
Balance on 31 December	**510,161**	**-**

Structure of loans and advances to customers

In thousands of dinars	31/12/2015	31/12/2014
Interests and fees	**793**	**-**
Short-term placements	**124,000**	**-**
In dinars and with currency clause	124,000	-
Long-term placements	**388,445**	**-**
In dinars and with currency clause	388,445	-
Gross placements to customers	**513,238**	**-**
Deferred loan origination fee		
Short-term placements	**(469)**	-
In dinars and with currency clause	(469)	-
Long-term placements	**(2,608)**	-
In dinars and with currency clause	(2,608)	-
Total:	**(3,077)**	-
Interests and fees	**793**	**-**
Short-term placements	**123,531**	**-**
In dinars and with currency clause	123,531	-
Long-term placements	**385,837**	**-**
In dinars and with currency clause	385,837	-
Net placements to customers:	**510,161**	**-**

b) Loans and advances to customers

The Bank only started to deal with loan activities in 2015. In subject period, the approved loans to legal entities were long-term loans with currency clause, for working capital and investment loans, with interest rate ranging from 2.30% to 4.50% on annual level. Legal entities were granted also short-term revolving dinar loans, and the interest rates ranged from 5% to 7.50% p.a.

18. Intangible assets and goodwill

In thousands of dinars	Gross	Amortization	Net
Intangible assets in progress	2,957	-	2,957
Licenses and software	225,655	(10,787)	214,868
Other intangible assets	-	-	-
Balance on 31 December 2015	**228,612**	**(10,787)**	**217,825**

Changes in intangible assets during 2015

In thousands of dinars	Intangible assets in progress	Licenses and software	Other intangible assets	Total
Purchase value				
Balance on 5 February 2015	**-**	**-**	**-**	**-**
Direct increments	**2,957**	**225,655**	**-**	**228,612**
Balance on 31 December	2,957	225,655	-	228,612
Impairment				
Balance on 5 February 2015	-	-	-	-
Calculated amortization	-	(10,787)	-	(10,787)
Balance on 31 December	**-**	**(10,787)**	**-**	**(10,787)**
Present value on 31 December 2015	**2,957**	**214,868**	-	**217,825**

The Bank does not possess any intangible assets estimated to have an unlimited useful life on the day of 31 December 2015. Further to the estimate of the Bank's management, on the day of 31 December 2015 there are no indications that the value of intangible assets is impaired.

19. Property and equipment

In thousands of dinars	Gross	Depreciation	Net
Investments in fixed assets of other legal entities	68,128	(4,245)	63,883
Equipment	104,441	(6,055)	98,386
Fixed assets in progress	1,101	-	1,101
Balance on 31 December	**173,670**	**(10,300)**	**163,370**

Changes in fixed assets during 2015

In thousands of dinars	Invest.in fixed assets of other legal entities	Equipment	Fixed assets in progress	Total
Purchase value				
Balance on 5 February 2015	-	-	-	-
Direct increments	68,128	104,441	1,101	173,670
Revaluation	-	-	-	-
Transfer from/to	-	-	-	-
Disposal, sale and other decrease	-	-	-	-
Balance on 31 December	68,128	104,441	1,101	173,670
Impairment provision				
Balance on 5 February 2015	-	-	-	-
Calculated depreciation	(4,245)	(6,055)	-	(10,300)
Disposal and sale	-	-	-	-
Balance on 31 December	**(4,245)**	**(6,055)**	**-**	**(10,300)**
Present value on 31 December 2015	**63,883**	**98,386**	**1,101**	**163,370**

The Bank does not possess any real estate property, plants and equipment estimated to have an unlimited useful life. On the day of 31 December 2015, the Bank is in possession of the assets it avails with and has no encumbrance on property. Further to the estimate of the Bank's management, on the day of 31 December 2015 there are no indications that the value of fixed assets and investments in leased business premises is impaired.

20. Other assets

Other assets include:

In thousands of dinars	31/12/2015	31/12/2014
Receivables from advances paid for current assets	655	-
Receivables from advances paid for fixed assets	6,628	-
Prepaid costs	861	-
Petty inventory in use	367	-
Other	58	-
Other assets	**8,569**	-
Impairment of other assets	(367)	-
Balance on 31 December	**8,202**	**-**

21. Deposits from banks

In thousands of dinars	31/12/2015	31/12/2014
Liabilities for fees and commissions to NBS	64	-
Liabilities for fees and commissions to other banks etc.	18	-
Balance on 31 December	**82**	-

22. Deposits from customers

In thousands of dinars	**31/12/2015**	**31/12/2014**
Corporates		
Transaction deposits in dinars	56,168	-
Long-term deposits on loans in dinars	12,163	-
Transaction deposits in foreign currency	8,374	-
Other liabilities in foreign currency	234	-
Balance on 31 December	**76,939**	-

23. Subordinated liabilities

Loans received in foreign currency

The structure of received loans per creditors, with balance on 31 December 2015, is presented in the following table:

Creditor name	Agreed amount	Currency	Outstanding balance on 31 Dec. 2015 in EUR	Interest rate p.a.	Maturity date	Balance on 31 Dec 2015 in 000 RSD
AFLAJ INVESTMENT LLC Abu Dhabi	5,000,000	EUR	5,000,000	0.498%	22/10/2025	608,130

24. Provisions

In thousands of dinars	**31/12/2015**	**31/12/2014**
Provisions for retirement pay, in accordance with IAS 19	2,474	-
Provisions for employees' annual leave, in accordance with IAS 19	418	-
	2,892	-

The trends in provisions for potential losses in retirement pays and other purposes are presented in the above table. Provisions for retirement pay to employees are formed based on actuarial valuation, with balance on the balance sheet date, and these are recognized in the amount of the present value of expected future payments.

In compliance with its Rules of Procedure, the Bank is obliged to pay out retirement pays at the amount of two average gross salaries in the Republic of Serbia in the month preceding the month of payment, as per latest published information of the republic statistical authority.

The value of expected outflows was assessed using the average monthly salary in the Republic of Serbia in December 2015 and 8% discount rate which represents an adequate rate according to IAS 19 "Employee Benefits" in the absence of a developed market of high-quality corporate bonds, which is the return on 10-year treasury bonds of the Republic of Serbia. The provision is assessed based on the Bank's Rules of Procedure and an assumed average salary increase at the rate of 4% p.a, which is equal to the target inflation rate projected by NBS.

25. Other liabilities

In thousands of dinars	**31/12/2015**	**31/12/2014**
Suppliers	16,784	-
Guarantee commissions	285	-
Prepaid expenses for legal fees	1,940	-
Other	223	-
	19,232	-

26. Capital and reserves

On the day of 31 December 2015, the subscribed paid-in share capital of the Bank consisted of 1,790,700 ordinary shares with par value of 1 thousand dinars.

Shareholder Structure

Duingraaf Financial Investments B.V., Kabelweg 37, 1014BA Amsterdam, the Netherlands, is 100% shareholder of the Bank on 31 December 2015.

	31/12/2015	
Shareholder name	**No.of shares**	**% ownership**
Duingraaf Financial Investments B.V., Amsterdam, The Netherlands	1,790,700	100%

The share capital structure is presented in the table below:

In thousands of dinars

	2015	
	Amount	**In %**
Ordinary shares	1,790,700	100.00
Balance on 31 December	1,790,700	100.00

Provisions for estimated losses

The provisions for estimated credit risk losses contained in the Bank's credit portfolio are calculated in accordance with the Decision of the National Bank of Serbia on Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("Official Gazette of RS" nos. 94/2011, 57/2012, 123/, 113/2013 and 135/2014 and 25/2015 and 38/2015).

On the day of 31 December 2015, the required reserve for estimated losses which might arise from balance sheet assets and off-balance sheet items, calculated in accordance with the Decision of the National Bank of Serbia, amounts to 24,772 thousand dinars.

Capital adequacy and Bank's business indicators stipulated under the Law on Banks

The Bank is obliged to harmonize the scope and structure of its business and risk-weighted placements with business indicators stipulated under the Law on Banks and relevant decisions of the National Bank of Serbia made pursuant to the named Law.
The achieved business indicators of the Bank on 31 December 2015 were as follows:

1. **Capital adequacy indicators**

in thousands of dinars	**31/12/2015**	**31/12/2014**
Core capital	1,286,945	-
Supplementary capital	608,130	-
Deductibles from capital	-	-
Capital	1,895,075	-
Credit risk-weighted assets, exposure to derivatives non-tradable at stock market and capital requirement related to foreign currency risk	850.500	-
Capital adequacy indicator	**222,82%**	-

2. **Business indicators**	**Prescribed**	**Achieved**
1. Capital	Minimum EUR 10 million	15,581,151
2. Capital adequacy	Minimum 12%	222,82%
3. Bank's investments	Maximum 60%	8.62%
4. Sum of large exposures	Maximum 400%	10.39%
5. Average monthly liquidity indicators (December 2015)	Minimum 1	52.32
6. Foreign currency risk ratio	Maximum 20%	0.40%
7. Exposure of the Bank to a single entity or a group of related entities	Maximum 25%	10.39%

Except for the amount of exposure on the nostro account with the correspondent foreign bank BANQUE INTERNATIONALE A LUXEMBOURG SA which amounts to 10.39% Bank's capital, on the day of 31 December 2015, the Bank has no other large exposures in excess of 10% capital approved to a single entity or a group of related entities.

27. Off-balance sheet items

In thousands of dinars	31/12/2015	31/12/2014
Guarantees, securities, secured property and commitments	**157,524**	**-**
Payment guarantees:	**127,193**	**-**
In dinars	93,000	-
In foreign currency	34,193	-
Performance guarantees:	**25,331**	**-**
In dinars	25,331	-
Revocable and irrevocable commitments for unwithdrawn loans and placements in dinars:	**5,000**	**-**
irrevocable	5,000	-
Other off-balance sheet items	**101,453**	**-**
Other irrevocable commitments under guarantees	101,355	-
Other	98	-
Total off-balance sheet items	**258,977**	**-**

Documentary operations

In 2015, the Bank started the activities of documentary operations by issuing payment and performance guarantees. The value of issued payment guarantees totals 127,193 thousand dinars, and the value of performance guarantees totals 25,331 thousand dinars.

28. Related party relationships

The following table presents the total balance sheet exposure and exposure to related parties, as well as income and expenses from related parties which influence the Bank's business operations:

In thousands of dinars for the year ending on 31 December

BALANCE SHEET	**31/12/2015**	**31/12/2014**
Liabilities		
Subordinated loan	608,130	-

PROFIT AND LOSS ACCOUNT	**2015**	**2014**
Interest expenses from subordinated loans	(453)	**-**

Gross and net income of the President and members of the Board of Directors and the Executive Board in 2015 were as follows:

	In thousands of dinars as at 31 December	
	31/12/2015	**31/12/2014**
Gross income	**34,882**	**-**
Executive bord	25,999	-
Board of directors	8,883	-
Net income	**28,056**	**-**
Executive bord	22,442	-
Board of directors	5,614	-

29. Commitments to lease

The Bank rents office space through operational leasing.

Future payments under operating leases where the Bank emerges as the lessee are shown in the following table:

In thousands of dinars	31/12/2015	31/12/2014
Operating leasing payments		
One year period	61,870	-
Period from 1 to 5 years	220,787	-
Period over 5 years	-	-
Total	282,657	-

30. Litigation

On the day of 31 December 2015, there are no lawsuits against third persons or the Bank.

31. Reconciliation of receivables and payables

The Bank is in accordance with Article 18 of the Accounting law performed reconciliation of receivables and payables with its debtors and creditors, and there is an authentic documentation. The Bank's client submitted the request for the certificate status or copies of open items that would harmonize with them the status of receivables / liabilities as at 31 December 2015.

Total amount of reconciled receivables and payables:

- receivables in amount of 674,957 thousand dinars,
- liabilities in amount of 1,406,484 thousand dinars,
- liability for subordinated loan in the amount of 608,130 thousand (EUR 5,000,000).

The total amount tendered sheet relates to liabilities in the amount of 3,887 thousand relating on not confirmed total status of 3,887 thousand is because customers did not support the situation in their current account at the Bank.

32. Events after the end of the reporting period

There have been no significant events after the end of the reporting period which would call for adjustments or disclosures within notes to the enclosed Bank's financial statements for the year 2015.

Belgrade, March 16, 2016

Dragana Bojin
Head of Accounting Department

Ilinca Rosetti
President of the Executive Board

Sasa Micevic
Member of the Executive Board