



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

HALKBANK A.D. BEOGRAD

Report on financial statements

We have audited the accompanying financial statements of HALKBANK a.d. Beograd ("the Bank"), which comprise the balance sheet as at 31 December 2016, 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 applicable audit standards in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

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 the year ended 31 December 2016. In this regard, we performed procedures in accordance with the applicable audit standard - *The Auditor's responsibilities relating to other information in documents containing audited financial statements*, which are limited to the assessment of consistency of the annual business report with the financial statements.

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

Belgrade, 6 March 2017

KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

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Belgrade, 6 March 2017

KPMG d.o.o. Beograd



Dušan Tomić
Dušan Tomić
Certified Auditor

TRANSLATION

HALKBANK a.d. BEOGRAD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
AT 31 DECEMBER 2016**

February 2017

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Financial statements of the Halkbank a.d. Beograd, for the year ended 31 December 2016, are comprised of:

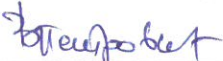
1. Statement of financial position
2. Statement of profit and loss
3. Statement of other comprehensive income
4. Statement of changes in shareholder's equity
5. Statement of cash flows for the period
6. Notes to the Financial Statements

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Statement of financial position for the year ended 31 December

		(in thousands of RSD)	
	Note	31 December 2016	31 December 2015
ASSETS			
Cash and balances with central bank	3.8, 13	4,090,612	4,081,407
Pledged financial assets	14a	90,000	584,834
Financial assets at FVTPL held for trading	3.7.3, 14b	23,984	295,295
Financial assets available for sale	3.7.4, 14c	3,177,595	244,349
Financial assets held-to-maturity	3.7.2, 14d	1,353,325	3,449,188
Loans and receivables from banks and other financial institutions	3.7.1, 15	1,018,760	3,057,235
Loans and receivables from customers	3.7.1, 16	23,997,783	19,195,483
Intangible assets	3.6, 17a	73,976	28,085
Property, plant and equipment	3.4, 17b,c	818,446	628,570
Investment property	3.5, 17d	126,337	130,028
Deferred tax assets	3.10, 12c	62,393	62,393
Other assets	18	152,600	177,945
TOTAL ASSETS		34,985,811	31,934,812
LIABILITIES			
Deposits and other liabilities due to banks, other financial institutions and central bank	19	2,715,013	702,699
Deposits and other liabilities due to customers	20	26,101,052	23,373,380
Subordinated debts	21	-	1,851,741
Provisions	3.15, 22	42,466	91,639
Other liabilities	23	243,695	175,544
TOTAL LIABILITIES		29,102,226	26,195,003
EQUITY			
Share capital	3.12, 24	4,248,483	4,248,483
Profit	24	138,153	-
Losses	24	-	(185,467)
Reserves	3.12, 24	1,496,949	1,676,793
TOTAL EQUITY		5,883,585	5,739,809
TOTAL LIABILITIES AND EQUITY		34,985,811	31,934,812

Belgrade, 28 February 2017


Vesna Petrović

Head of Financial
Management and Planning


Erturk Sumer

Member of the Executive
Board


Kenan Bozkurt II


Halkbank
BEOGRAD

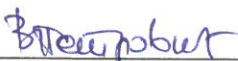
Chairman of the Executive
Board

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Statement of profit and loss for the period from 1 January to 31 December

	Note	<i>(in thousands of RSD)</i>	
		2016	2015
Interest income	3.1, 4a	1,604,833	1,626,812
Interest expenses	3.1, 4b	(259,871)	(447,681)
Net interest income		1,344,962	1,179,131
Fee and commission income	3.2, 5a	663,889	659,033
Fee and commission expenses	3.2, 5b	(87,333)	(83,301)
Net fee and commission income		576,556	575,732
Net gains on financial assets held for trading	6	11,646	26,321
Net income / (expense) on foreign exchange differences and FX contracts	3.3, 7	498	(10,487)
Other operating income	8	20,995	44,416
Impairment losses and provisions on financial assets and off-balance sheet credit risk items	3.7.5, 9a	(389,289)	(761,752)
TOTAL NET OPERATING INCOME / (LOSS)		1,565,368	1,053,361
Wages, compensation of wages and other staff costs	10	(584,536)	(526,929)
Depreciation expenses	17	(106,915)	(95,925)
Other expenses	11	(737,837)	(618,318)
PROFIT / (LOSS) BEFORE TAX		136,080	(187,811)
Income tax	12	-	2,344
PROFIT / (LOSS) AFTER TAX		136,080	(185,467)
PERIOD RESULT – PROFIT / (LOSS)		136,080	(185,467)
Basic earnings / (loss) per share	24	748	(965)

Belgrade, 28 February 2017


Vesna Petrović

Head of Financial
Management and Planning


Erturk Sumer

Member of the Executive
Board


Kenan Bozkurt

Chairman of the Executive
Board



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Statement of other comprehensive income for the period from 1 January to 31 December

	<i>(in thousands of RSD)</i>	
	<u>2016</u>	<u>2015</u>
PROFIT / (LOSS) AFTER INCOME TAX RECOGNIZED IN INCOME STATEMENT	136,080	(185,467)
Actuarial gains / (losses)	4,146	(2,405)
Increase / (decrease) of revaluation reserves	(3,206)	-
The positive effect of the change in fair value on financial assets available for sale	4,683	10,124
Total positive / (negative) other income for the period	5,623	7,719
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	141,703	(177,748)

Belgrade, 28 February 2017



 Vesna Petrović
Head of Financial
Management and Planning


 Erturk Sumer
Member of the Executive
Board


 Kenan Bozkurt
Chairman of the Executive
Board

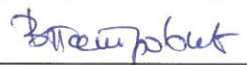
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Statement of changes in shareholder's equity for the period from 1 January to 31 December

(in thousands of RSD)

	Share capital	Share premium	Reserves from profit	Revaluation reserves	Profit	Loss	Total equity
Balance as of 1 January 2015	1,821,160	1,227,323	1,631,156	309,333	4,239	(275,654)	4,717,557
Net change in actuarial gains / (losses)	-	-	-	(2,405)	-	-	(2,405)
Loss for the year	-	-	-	-	-	(185,467)	(185,467)
Coverage of previous years losses	-	-	(271,415)	-	(4,239)	275,654	-
Transactions with shareholders recorded directly in equity - Increase / (decrease)	600,000	600,000	-	-	-	-	1,200,000
Gains from change in available for sale securities reserve	-	-	-	10,124	-	-	10,124
Balance as of 31 December 2015	2,421,160	1,827,323	1,359,741	317,052	-	(185,467)	5,739,809
Balance as of 1 January 2016	2,421,160	1,827,323	1,359,741	317,052	-	(185,467)	5,739,809
Net change in actuarial gains / (losses)	-	-	-	4,146	(1,133)	-	3,013
Gain for the year	-	-	-	-	136,080	-	136,080
Coverage of previous years losses	-	-	(185,467)	-	-	185,467	-
Gains / (losses) from sale of fixed assets	-	-	-	(3,206)	3,206	-	-
Gains from change in available for sale securities reserve	-	-	-	4,683	-	-	4,683
Balance as of 31 December 2016	2,421,160	1,827,323	1,174,274	322,675	138,153	-	5,883,585

Belgrade, 28 February 2017


 Vesna Petrovic

Head of Financial Management and Planning


 Erturk Sumer

Member of the Executive Board


 Kenan Bozkurt
 

Chairman of the Executive Board

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Statement of cash flows for the period from 1 January to 31 December

	<i>(in thousands of RSD)</i>	
	2016	2015
Cash inflows from operating activities	2,103,275	2,235,992
Interest receipt	1,433,910	1,569,026
Fee and commission receipts	662,217	661,861
Receipts from other operating income	4,004	4,047
Dividend and equity investments cash receipts	3,144	1,058
Cash outflows from operating activities	(1,769,790)	(1,629,726)
Interest payments	(283,866)	(470,213)
Fee and commission payments	(80,365)	(74,701)
Outflows for gross wages, compensation of wages and other personal expenses	(650,582)	(526,929)
Taxes, contributions and other duties paid	(122,546)	(108,441)
Payments for other operating expenses	(632,431)	(449,442)
Net operating cash inflows before changes in placements and deposits	333,485	606,266
Decreases in placements and increases in deposits	5,545,204	2,756,389
Decrease in deposits and other liabilities to banks, other financial institutions, central bank and customers	-	2,598,071
Decrease in financial assets designated at FVTPL, financial assets held for trading, and short-term securities that are not held for investment	511,788	-
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	5,033,416	158,318
Increases in placements and decreases in deposits and other liabilities	2,105,951	756,494
Decrease in deposits and other liabilities to banks, other financial institutions, central bank and customers	2,105,951	-
The increase in financial assets recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	-	756,494
Net cash inflows from operating activities	3,772,738	2,606,161
Cash inflows from investing activities	5,126,244	7,200
Inflows from investments in securities	5,099,045	-
Inflows from sales of investments in subsidiaries and associates and joint ventures	20,109	-
Inflows from sale of intangible assets, property, plant and equipment	7,090	7,200
Cash outflows from investing activities	(5,781,285)	(3,521,342)
Outflows from investments in investment securities	(5,463,125)	(3,444,617)
Outflows for purchases of intangible assets, property, plant and equipment	(318,160)	(76,725)
Net cash inflows / (outflows) from investing activities	(655,041)	(3,514,142)
Cash inflows from financing activities	-	1,200,000
Inflows from capital increase	-	1,200,000
Cash outflows from financing activities	(2,762,096)	(1,194,411)
Outflows from subordinated liabilities	(1,842,216)	-
Outflows from taken loans	(919,880)	(1,194,411)

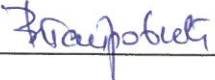
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Financial Statements for the year ended as at 31 December 2016


Halkbank a.d. Beograd
TRANSLATION

Net cash inflows from financing activities	-	5,589
Net cash outflows from financing activities	(2,762,096)	-
TOTAL CASH INFLOW	12,774,723	6,199,581
TOTAL CASH OUTFLOW	12,419,122	7,101,973
NET INCREASE IN CASH	355,601	-
NET DECREASE IN CASH	-	(902,392)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,509,121	3,386,542
POSITIVE FOREIGN EXCHANGE DIFFERENCES	110,946	192,160
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	(92,455)	(167,189)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2,883,213	2,509,121

Belgrade, 28 February 2017



Vesna Petrović
Head of Financial
Management and Planning



Erturk Sumer
Member of the Executive
Board



Kenan Bozkurt
Chairman of the Executive
Board



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

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1. FOUNDATION AND OPERATIONS

1.1. Foundation

Halkbank a.d. Beograd, formerly known as Cacanka banka, has been operating since 1 July 1956, and during its operations and development it has changed its legally-registered name and organizational form several times. As a part of the overall restructuring of the Yugoslav banking system in 1990, the Bank was reorganized as a shareholding entity. In accordance with the Law on Banks and Other Financial Institutions and Decision of National Bank of Yugoslavia on Establishment of Banks, the Bank was registered as Beogradska banka Čačanska banka d.d., Čačak in Commercial Court in Kraljevo on 28 December 1990. On 13 July 1995, the Bank's Shareholders Assembly adopted the Statute of Beogradska banka Čačanska banka, and thereby complied its articles with the provisions of the Law on Banks and Other Financial Institutions. Pursuant to its Statute, Beogradska banka, Čačanska banka was formed as a legal entity operating in accordance with rights, obligations and responsibilities based on the law and the Articles of Association.

During 1999 and until the end of October 2000, the Bank operated as branch office of Beogradska banka a.d., Beograd, after the merger conducted on the basis of the Decision of Commercial Court in Belgrade dated 8 April 1999. Based on the court decision dated 2 November 2000, the legal registration amendment with respect to the merger was erased. From 23 July 2001, the Bank is registered and operates as Čačanska banka a.d., Čačak.

Turkiye Halk Bankasi AS in May 2015 became the majority owner of Čačanska banka. The change of ownership has caused the change of name and headquarters of the Bank. The new name of the bank is Halkbank a.d. Beograd (hereinafter "Bank").

The Bank is registered in the Serbian Business Registers Agency under number BD 54244 as of 13 September 2005.

1.2. Operations

The Bank is registered in the Republic of Serbia for payment, credit and deposit activities in the country and abroad and it operates in accordance with the Law on Banks.

Headquarters of Bank is in Belgrade. During 2016 the Bank has changed the headquarters from Milutina Milankovica 9z Belgrade in Milutina Milankovica 9e Belgrade. This address change is registered in the Business Registers Agency under number BD 82129/2016 on 19 October 2016.

As of 31 December 2016, the Bank's network consists of 20 branches (2015:14 branches): Blegrade (5 branches), Cacak (2 branches), Jagodina, Gornji Milanovac, Kraljevo, Uzice, Kragujevac, Krusevac, Arandjelovac, Valjevo, Sabac, Nis, Novi Sad, Pancevo and Novi Pazar. Also, bank has eight sub-branches in Paracin, Pozega, Topola, Ivanjica, Vrnjacka Banja, Leskovac, Mladenovac and Cacak. During 2016 the Bank opened four new branches - two in Belgrade (in Kalenic street and Milutina Milankovica 9e), branch in Pancevo, as well as a branch in Novi Pazar.

As at 31 December 2016 the Bank had 411 employees (2015: 377), and as at 31 December 2015 377 employees. The Bank's tax identification number is 100895809.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Statement of compliance

The Bank's financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Legal entities and entrepreneurs in Republic of Serbia are obliged to keep business books, recognize and value assets and liabilities, income and expense, as well as to prepare, report, deliver and disclose financial statements in line with Law on Accounting ("RS Official Gazette" No. 62/2013). Banks, as large legal entities, are obliged to apply International Financial Reporting Standards (IFRS), which, according to the Law on Accounting, includes Framework for Preparation and Disclosure of Financial Statements ("Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards (IFRS), as well as related interpretations issued by the International Financial Interpretations Committee ("IFRIC"), subsequent changes of the standards and related interpretations, approved by the International Accounting Standards Board (IASB).

The accounting policies for the preparation of the financial statements, presented below, have been consistently applied by the Bank in all accounting periods.

2.2. Rules of measurement

Enclosed financial statements have been prepared in accordance with the concept of historical cost, except for securities held for trading, securities available for sale and buildings, which are carried at their fair value.

2.3. Functional and reporting currency

The amounts in the enclosed financial statements have been presented in thousands of dinars, unless stated otherwise. The dinar (RSD) is the functional and reporting currency of the Bank. All transactions in currencies other than functional currency, are treated as the foreign currency transactions.

2.4. Going concern principle

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue in operation for the foreseeable future.

2.5. Use of estimates

Preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision.

2.6 Standards and interpretations applied for the first time in the current period

Below in text is an overview of the standards and interpretations that were modified and those who were first in use in the current period:

- IFRS 14 Regulatory Accounts (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of the eligible methods of calculation of depreciation (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (effective for annual periods beginning on or after 1 January 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" - the application of exemptions for the consolidated financial statements - (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 - Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).
- Amendment to IAS 1 "Presentation of Financial Statements" - an initiative for disclosure - (effective for annual periods beginning on or after 1 January 2016)
- The cycle of annual improvements standard 2012 - 2014 (effective for annual periods beginning on or after 1 January 2016).

The adoption of these standards and interpretations has not led to changes in accounting policies, i.e. had no significant effect on the Bank's financial statements for the year 2016.

2.7. Standards and interpretations in issue not yet effective

At the date of preparation of these financial statements, the following standards and their amendments and interpretations were in issue but not yet effective, as well as standards that are not translated:

- IFRS 9 Financial Instruments (effective for financial periods as of 1 January 2018);

In accordance with IFRS 9, financial assets will qualify in 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 met: 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 measured at fair value. Gains and losses on measurement of financial assets at fair value will be recognized in the income statement, except for investments in equity instruments which are not held for trading, where IFRS 9 permits, at initial recognition, the selection of the later unchangeable option for all changes in fair value to be recognized under other gains and losses in the statement of comprehensive income. The amount thus recognized within the Income Statement.

The application of IFRS 9 will also have an impact on the calculation of impairment in relation to the requirements of IAS 39 by two key grounds: the calculation of the provision will take into account the impact of changes in the macroeconomic environment on the level of credit losses and additional codes problematic investments for which there has been a significant deterioration in credit quality or where there is no objective evidence of loan loss calculation of reserves will be calculated for the period to maturity of the loan, not for a period of one year

- Amendments to IAS 7 – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 Income Taxes (effective for annual periods beginning on or after 1 January 2017);
- The cycle of annual improvements to IFRS 2014- 2016 - Amendments to IFRS 12 Disclosure of interests in other entities (effective for annual periods beginning on or after 1 January 2017).
- IFRS 15 - Revenues from contracts with customers (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2018);
- Application of IFRS 9 Financial Instruments under IFRS 4 Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 Investment Property - Investment property transfer (effective for annual periods beginning on or after January 1, 2018.)
- The cycle of annual improvements to IFRS 2014- 2016 - Amendments to IFRS 1 First-time Adoption of IFRS and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018);
- Interpretation IFRIC 22 - Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019);

IFRS 16 defines recognition, measurement, presentation and disclosure of leasing. Standard defines a single accounting model, requiring from lessees to recognize assets and liabilities of all leases, unless the lease is for a period less than 12 months or if the asset has small value. The lessee classifies the lease as operating or finance, in accordance with guidelines for lease accounting IFRS 16, which replaces the existing guidelines from IAS 17 Leases.

The Bank is examining the impact from the adoption of the above amendment on its financial statements and the date of their entry into force. The intention of Management is the full implementation of IFRS 9 at the date of their application in terms of classification and in terms of calculating the effects of impairment in accordance with the requirements of the new standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

Interest income and expenses, including penalty interest and other income and expenses related to interest-bearing assets and interest-bearing liabilities, are calculated and recognized in the Statement of profit and loss according to the matching principle.

Interest income and expenses are recognized within the income statement for all interest-bearing instruments, on the basis of calculated interest by applying the effective interest rate method, based on the Methodology of measuring amortized costs using the effective interest rate method. Interest income includes calculated discount from financial instruments held to maturity.

In accordance with accounting policies, the Bank ceases to recognize income from accrued regular interest in the following cases:

- when decision on debtor's bankruptcy has been made;
- when decision on initiation of court proceedings for collection of receivables has been made;
- when decision on ceasing of recognition of income from accrued interest has been made by the relevant board or when other circumstances, which aggravate the collection of receivables, have been identified;
- when the debtor, a legal entity or entrepreneur, is overdue for more than 150 days.

After identification of objective evidence of impairment and the recognition of the impairment, interest income on these receivables is calculated using the effective interest rate on a net basis, by using the rate of interest used to discount future cash flows for the purpose of measurement of impairment losses.

3.2. Fee and Commission Income and Expenses

Fee and commission income and expenses are recognized based on the matching principle, and in accordance with the accrual basis, being recognized in the income statement when incurred or upon maturity, except for loan origination fees, guarantees and other types of sureties, in accordance with IAS 18 Revenues.

Loan origination fees, with known repayment schedule are recognized as interest income and calculated based on effective interest rate method.

Loan origination fees, with unknown repayment schedule (credit facilities, overdrafts, credit cards and other similar placements), guarantees and other types of sureties, are recognized on proportional basis.

Card memberships and fees for funds management on behalf and for the account of third parties are recognized on a proportional basis.

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3.3. Foreign Currency Translation

Transactions denominated in foreign currency are translated into dinars at official middle exchange rate of the National Bank of Serbia at the date of transaction.

Assets and liabilities denominated in foreign currency as of balance sheet date are translated into dinars by applying the official middle exchange rate of the National Bank of Serbia for that date.

Net foreign exchange gains or losses arising from transactions in foreign currency and the assets and liabilities denominated in foreign currency are recognized as foreign exchange gains or losses, in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates.

Gains and losses arising from embedded derivatives, in cases where the annuity is connected with the dinar exchange rate to foreign currency are recognized as income or expenses from change in fair value of derivatives, in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Contingent liabilities and commitments denominated in foreign currency are translated into dinars by applying the official middle exchange rates at balance sheet date.

3.4. Property, plant and equipment

Initial measurement of buildings is carried at cost. Valuation of buildings after the initial recognition is carried out using the procedure of revaluation provided by IAS 16 Property, plant and equipment, at a revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Assessment revaluated value and remaining useful life of buildings is carried at least once every three years by authorized appraiser (an expert in civil engineering). Evaluation of the market value by an independent authorized appraiser was carried out on 31 December 2015.

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

Depreciation is calculated by linear method on the cost or revalued amount of property, investment property, plant and equipment in order to fully write off assets over their useful lives in accordance with the Regulations on amortization of intangible assets, fixed assets and investment property.

During 2016, we applied the following depreciation rates:

Buildings	2.50%
Investment property	2.50%
Computer equipment	20.00%
Furniture and other equipment	16.67%

3.5. Investment property

Investment property is property held by the Bank to earn rental income and is regulated by IAS 40 *Investment Property*.

Investment property is initially measured at cost. After initial recognition, the Bank measures investment property at cost less accumulated depreciation and any accumulated impairment losses.

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For depreciation of investment property applies proportional method of writing-off the estimated useful life in accordance with the Regulations on amortization of intangible assets, fixed assets and investment property. For depreciation of investment property was used a period of 40 years, and the depreciation rate of 2.5%.

3.6. Intangible assets

As of 31 December 2016 intangible assets are measured at cost less accumulated amortization and impairment losses. The Bank includes in this category licenses, patents and software.

Depreciation is calculated using the straight line method to the purchase value of intangible assets within the agreed period of use, or the estimated useful life unless agreed period of use. During 2016, the Bank applied the annual rate of depreciation 16.67% - 75.01%, in order to fully write off the investment during of his life. The depreciation rate of 75.01% is applicable to Microsoft licenses whose useful life is 16 months.

3.7. Financial instruments

Financial instruments are initially carried at fair value increased for transaction costs (except financial assets and liabilities carried at fair value through profit and loss), which can be directly related to acquisition or issue of a financial asset or financial liability.

Financial assets and financial liabilities are recognized in the Balance Sheet, from the moment when the Bank bound to the contractual provisions of the instrument. Purchases or sales of financial assets "regular way" recognized on the settlement date, i.e. the date the asset is delivered to the counterparty.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- either the Bank has transferred substantially all the risks and rewards from the asset, or has neither transferred nor retained substantially all the risks and rewards from the asset, but has transferred control over the asset.

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

Financial liabilities

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

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

3.7.1 Loans and receivables

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

Loans and receivables originated by the Bank are carried at gross amortized cost (GAC) decreased by allowances for impairment as of reporting date. Gross amortized costs represent total receivables from the Bank's clients (including unpaid principal, nominal interest, penalty interest, receivables for fees and other receivables) adjusted by the amount of unamortized fees and calculated based on the methodology for measuring amortized costs using the effective interest rates.

Individual allowances for impairment and provisions represent decreased value of assets (collectable amount) below net book value, caused by growth of credit risk for such assets, leading to negative changes in expected cash flows for such assets and calculated based on the Methodology for Calculating Allowance for Impairment.

By recording individual allowance for impairment as an expense, the Bank indirectly decreases the value of loans and receivables when there is objective evidence of decrease in probability of collection, as a result of one or more circumstances (circumstances that lead to a loss) that occurred after the initial recognition of an investment, and such circumstance influences future estimated cash flows.

Circumstances resulting in loss may be identified at the moment when:

- the debtor is overdue for more than 90 days or
- other circumstances that lead to a loss have occurred.

During 2016, the Bank amended its Accounting Policies due to changes in regulations and technology work by introducing definitions of direct write-offs and a general release of debt:

- Direct write-off of receivables: If the Bank estimates that the receivable will not be collected, may use accounting technique of direct write-offs of loans as well as receivables arising from them, transferring all receivables from balance sheet to off-balance sheet. Direct write-off of receivables does not entail waiving the legal claim against the debtors and, hence, the debt may be revived, it only means transferring from balance sheet to off-balance sheet and the Bank continues to lead the activities started on collection of receivables. The Bank may carry out a direct write-off if the receivables are indirectly written off in full (100% corrected).
- General release of debt: In the event that the Bank performs a permanent accounting reduction of a debt, based on settlement (agreement) with the debtor / co-debtors, final court decision, enforceable document (judgment), decisions the competent authority of the Bank, or abandonment of receivables that causes termination of rights on further collection, general release of debt can be done. In that case, all of the Bank's receivables are derecognized from the balance sheet and they are recorded on off-balance sheet. General release of debts (loans and receivables) may or may not be preceded by a direct write-off of loans and receivables.

Loans stated in dinars, for which safeguard on risk is agreed by linking dinar exchange rate with foreign currency are revalued in accordance with relevant contract for each loan. The difference between nominal value of principal outstanding and revalued amount is presented within the basic financial instrument.

3.7.2 Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with precisely determined maturity that the Bank has intention to hold to maturity (except for assets classified as loans and receivables).

Financial assets held to maturity include treasury bills of the Republic of Serbia and government bills of the Republic of Serbia.

Shares cannot be classified within this category as they do not have specified maturity.

At initial recognition the Bank recognizes the asset at amortized cost by applying effective interest rate method. Transaction costs that may be directly linked with purchase of the financial asset are included in amortized cost by applying effective interest rate method, i.e. these costs are amortized through the income statement over the period of validity of that instrument. The effective interest rate method represents calculation of amortized cost by applying the market effective interest rate and distribution of interest income during the relevant period. Income and expenses from the changes in amortized cost of financial assets are recognized in the income statement by applying the effective interest rate method.

Subsequent measurement of changes in the amortized cost of these assets is performed daily when interest for such assets is due, as well as on the last day of each month during the year.

Gains and losses from the changes in value of financial assets arising from changes in dinar exchange rate (if the asset is denominated in a foreign currency or in dinars with foreign currency clause) are also recognized in the income statement.

3.7.3 Financial assets at fair value through profit and loss held for trading

Financial assets at fair value through profit and loss represent assets that are classified as available for trading, which assumes that they are acquired for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and in the intermediary margin.

Trading financial assets comprise foreign currency old savings bonds, shares of banks and companies with continual trading on the Belgrade Stock Exchange. Securities held for trading are measured at fair value, while the recognized gain or loss arising from the change in the fair value of the financial assets is included in net profit or loss. Fair value is the market value of the financial asset determined as of balance sheet date on the stock exchange.

Financial assets at fair value also include derivatives. A derivative is a financial instrument or any other agreement with the following three characteristics:

- its value changes (as a result of the defined/agreed interest rate or the price of the financial instrument or price on stock exchange or foreign exchange rate or growth of price index or other variable value),
- it does not require any initial net investment or it requires an initial net investment which is lower than in other agreements that are expected to have some similar reactions to the changes in market conditions and
- it will be settled in the future.

Initial recognition of derivatives is carried out at the moment when the derivative agreement is concluded, when the amount of the nominal principal of the derivative is disclosed within off-balance sheet items. The initial positive or negative difference of a fair value of a derivative is disclosed in the balance sheet as an asset or liability. Subsequent valuation of a derivative's fair value is recorded at the end of each business day, while the effect of the change in fair value is recorded in the income statement either as a positive or a negative effect of the changes in the value of derivatives. Positive fair value of a derivative is recognized as an asset and negative fair value, as a liability. The derivative is derecognized at the moment when the contractual rights and obligations (exchange of cash flows) arising from the derivative expire, and/or at the date of the execution. As of the execution date the book value of an asset and all income and expenses from the changes in the value on that assets are derecognized. If there is an active derivative market in the country, the final effect of the sale impacts on the income statement as a profit or a loss from the derivative sale. If there is no active derivative market in the country, the Bank will record the final effect of the sale on the income statement in a different way, and in accordance with the Guidelines on the Implementation of the Accounting Policies that relate to the recognition and valuation of financial instruments, except for loans and receivables.

3.7.4 Financial assets available for sale

Financial assets available for sale represent non-derivative financial assets classified as available for sale or which are not classified as loans and receivables, investments held to maturity and financial assets at fair value through profit and loss.

Assets available for sale are acquired for the purpose of being sold within an indefinite period of time in the future in order to realize a profit.

At initial recognition, financial assets available for sale are carried at fair value increased for

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transaction costs. These costs are initially recognized within capital and not as an expense in the income statement and they increase the carrying amount of the asset.

After initial recognition, available for sale financial assets are carried at fair value and gains and losses from change in value of financial assets are recognized as revaluation reserves within capital. Gains and losses from change in value of financial assets, which are not recognized within capital, relate to:

- movements in the dinar's exchange rate (if the asset is in foreign currency or includes a foreign currency clause);
- impairment of financial assets (value adjustment), based on long-term and continuous decline in value in a period longer than 12 months in a significant amount when the accumulated losses recognized in equity reversed and recognized in the income statement as an impairment expense.

Subsequent valuation is being performed quarterly. At the sales date, the carrying amount of an asset and corresponding revaluation reserves are derecognized, with the sale proceeds recorded and any difference recognized as a gain or loss from the sale.

3.7.5 Impairment of financial assets

In accordance with IAS 39, a financial asset or group of financial assets, are impaired or impairment is reversed, only and only if, there is objective evidence of the uncertainty, due to one or more circumstances, which have arisen after initial recognition of financial assets, and if circumstances, which incur losses have effect on estimated future cash flows from a financial asset or group of financial assets, that can be reliably evaluated. Possible or expected future trends, which can cause losses in future, do not provide objective evidence of uncertainty.

3.8. Cash and balances with central bank

Cash and balances with central bank are comprised of cash in dinars and foreign currency, that is cash on giro and current accounts, cash on hand and other monetary assets in dinars and foreign currency, gold and other precious metals, deposited liquid surpluses with the National Bank of Serbia. For purposes of the cash flow statement, cash includes cash on hand in local and foreign currency, assets on accounts with other banks, as well as available assets held with the National Bank of Serbia.

3.9. Funds Managed on Behalf of Third Parties

The Bank manages funds on behalf of, and for the account of third parties, and charges fees for this service. These items are not recognized within the balance sheet.

3.10. Taxes and contributions

Income Tax

Income tax is recognized and calculated in accordance with IAS 12 Income Taxes and the Law on Corporate Income Tax.

The annual corporate income tax is payable at the rate of 15% on profit before tax, adjusted for permanent differences that prescribed tax rate adjusted to the effective tax rate.

The amount of liability for income tax is calculated by applying the prescribed tax rate to the tax base in the tax balance.

The Law on Corporate Income Tax in the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax balance up to 2009 may be used to reduce tax base for future periods, but only for a period not longer than ten years. The losses in the tax balance for 2010 and thereafter may be used for reduction of tax base for the following accounting periods, but for maximum 5 years. Such tax losses, up to the amount of assumed future taxable profit that can be offset to tax losses, are recognized in the balance sheet as deferred tax assets. Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that may be carried to the following periods, and effects of adjustment of securities to fair value, up to the level of assumed tax profit which may be decreased for tax losses and loans.

Deferred taxes

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

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

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

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

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

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

Taxes and contributions that do not depend on the result

Taxes and contributions not dependent on operating result include property tax, taxes and contributions on salaries as well as other taxes and contributions in accordance with the tax legislation of the Republic of Serbia. These taxes and contributions are recognized as Other operating expenses.

3.11. Fair value

The Bank's policy is to disclose information on fair value of assets and liabilities if official market information exists or information can be accessed by using alternative valuation techniques and when fair value is significantly different than book value. There is no sufficient market experience, stability and liquidity for buying or selling financial assets or liabilities due to lack of consistency in available market information. Due to such reason, fair value cannot be determined reliably. According to Management opinion, amounts presented in financial statements reflect actual fair value that is most adequate and most useful for financial reporting purposes in accordance with the Law on Accounting of the Republic of Serbia and relevant regulations of the National Bank of Serbia that regulate the Bank financial reporting.

3.12. Capital and reserves

Capital represents the surplus of the Bank's assets after deduction of all its liabilities. Capital is not assessed and measured separately. Total equity of the Bank is comprised of shares capital, reserves and retained earnings from which the Bank forms reserves from profit.

3.13. Employee benefits

The Bank does not have its own pension funds or share-based payment options as of 31 December 2016 and consequently has no liabilities recognized on this basis.

As of 31 December 2016 the Bank made provisions for termination benefits and jubilee awards and unused vacation days, based on evaluation carried out by a certified actuary. Provisions have been recognized according to the following assumptions:

Annual growth of salaries	4.00%
Discount rate	6.00%
Fluctuation rate	6.00%

On January 4, 2017 concluded a new collective agreement between Management and Bank's union which terminated the right of employees to payment of jubilee awards defined by the Collective Agreement. On 31 December 2016 Bank's union approval to change elements of the agreement existed.

3.14. Impairment of non-financial assets

At each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. In order to determine if assets are impaired, the Bank's management must objectively review cash flows, growth rate and discount rates for cash generating units, which are being reviewed.

3.15. Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements, unless the possibility of outflow of resources embodying economic benefits is remote (Note 25).

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

3.16. Impairment of non-financial assets

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

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

3.17. 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.

The Bank measures fair value of an instrument by using quoted market prices on active market for that instrument. The market is considered to be active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of certain financial instruments carried at face value is approximately equal to their carrying amount. These instruments include cash and receivables and liabilities with no contractual maturity, or contractual fixed interest rate.

Other assets, liabilities and securities are reduced to fair value by discounting future cash flows using current interest rates that do not differ significantly from the market interest rates. The management is of the opinion that there is no significant difference between the carrying amount and fair value of financial assets and liabilities.

4a) INTEREST INCOME

	In thousands of RSD For the year ended 31 December	
	2016	2015
Loans in RSD :		
Banks	997	4,760
Corporate customers	672,067	784,112
Entrepreneurs	123,270	143,595
Local government	16,613	92,950
Retail customers	453,759	393,599
Other customers	86,749	13,856
	1,353,455	1,432,872
Loans in foreign currency :		
Corporate customers	48,949	65,595
Entrepreneurs	368	532
Retail customers	135	193
Other customers	93	60
	49,545	66,380
Deposits in RSD :		
Banks	24,355	47,881
Deposits in foreign currency :		
Banks	53	163
Foreign entities	1,379	4,656
	1,432	4,819
Securities interest income :		
In RSD	151,369	61,072
In foreign currency	24,088	13,004
	175,457	74,076
Other placements interest income :		
In RSD	385	595
In foreign currency	204	189
	589	784
TOTAL:	1,604,833	1,626,812

Total recognized income from interest on loans undervalued as at 31 December 2016 amounted to RSD 184,310 thousand (31 December 2015 RSD 162,896 thousand).

4b) INTEREST EXPENSES

	In thousands of RSD	
	For the year ended	
	31 December	
	2016	2015
Loans in RSD :		
Banks	4,439	13
	4,439	13
Loans in foreign currency :		
Banks	104,970	247,196
	104,970	247,196
Deposits in RSD :		
Banks	17,270	10,918
Public corporate customers	3,874	698
Corporate customers	18,639	13,189
Entrepreneurs	41	369
Public sector	1,111	539
Retail customers	12,850	14,605
Other customers	13,178	25,339
	66,963	65,657
Deposits in foreign currency :		
Banks	-	2,442
Corporate customers	20,539	31,219
Entrepreneurs	23	61
Retail customers	61,621	99,690
Other customers	1,316	1,403
	83,499	134,815
TOTAL:	259,871	447,681

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5a) FEE AND COMMISSION INCOME

	In thousands of RSD For the year ended 31 December	
	2016	2015
In RSD :		
Bank and other financial institutions	48,344	28,717
Public enterprises	1,374	2,337
Corporate customers	363,489	380,825
Entrepreneurs	84,022	97,107
Public sector	75	23
Retail customers	137,988	125,016
Foreign legal entities and private individuals	1,608	2,924
Other customers	9,818	5,850
	646,718	642,799

	In thousands of RSD For the year ended 31 December	
	2016	2015
In foreign currency :		
Foreign Banks	11,483	10,702
Western Union	2,678	3,410
Retail customers	1,618	1,111
Entrepreneurs	1,349	988
Other customers	43	23
	17,171	16,234
TOTAL:	663,889	659,033

5b) FEE AND COMMISSION EXPENSES

	In thousands of RSD For the year ended 31 December	
	2016	2015
In RSD:		
Bank and other financial institutions	22,525	24,669
Corporate customer	33,219	29,580
Entrepreneurs	84	155
Public sector	316	312
Other customers	11,253	10,102
	67,397	64,818
In foreign currency :		
Bank and other foreign currency	7,995	6,307
Foreign entities	11,941	12,176
	19,936	18,483
TOTAL:	87,333	83,301

6. NET GAIN ON FINANCIAL ASSETS HELD FOR TRADING

	In thousands of RSD For the year ended 31 December	
	2016	2015
Gains from sale of securities and other financial assets held for trading	5,063	1
Losses from sale of securities and other financial assets held for trading	(290)	-
Net gains/losses	4,773	1
Income from change in fair value of securities and other financial assets held for trading	19,219	36,789
Expenses from change in fair value of securities and other financial assets held for trading	(12,346)	(10,469)
Net gains/losses	6,873	26,320
TOTAL:	11,646	26,321

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7. NET INCOME/(EXPENSES) ON FOREIGN EXCHANGE DIFFERENCES AND FX CONTRACTS

	In thousands of RSD For the year ended 31 December	
	2016	2015
Income on foreign exchange differences	1,480,764	2,098,677
Income on positive foreign exchange differences from FX contracts	1,043,672	1,299,212
TOTAL	2,524,436	3,397,889
Expenses on foreign exchange differences	(1,706,983)	(2,195,362)
Expenses on negative foreign exchange differences from FX contracts	(816,955)	(1,213,014)
TOTAL	(2,523,938)	(3,408,376)
Net income/expenses on foreign exchange differences	498	(10,487)

Income statement line item Net income on foreign exchange differences and FX contracts amounts to RSD 498 thousand and is the result of currency structure and effects of FX contracts for balance sheet assets and currency structure and effects of FX contracts for balance sheet liabilities. Participation of foreign currency line items in total balance sheet assets has been 63.15%, and participation of foreign currency line items in total balance sheet liabilities has been 62.97%.

8. OTHER OPERATING INCOME

	In thousands of RSD For the year ended 31 December	
	2016	2015
Operating income	4,099	3,910
Reversal of unused provisions	-	3,266
Income on sales of fixed assets and intangible assets	3,994	2,200
Dividends and income from other equity investments	3,144	1,058
Surpluses	-	103
Other income	9,731	9,321
Income from change in liabilities amount	27	24,558
TOTAL:	20,995	44,416

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9. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND OFF-BALANCE SHEET CREDIT RISK ITEMS

a) Expenses/Income

	In thousands of RSD For the year ended 31 December	
	2016	2015
Impairment of balance sheet items	(1,042,406)	(1,436,403)
Reversal of impairment of balance sheet items	659,760	675,246
Net income/expenses	(382,646)	(761,157)
Provisions for off-balance sheet items	(9,333)	(1,772)
Reversal of provisions for off-balance sheet items	1,772	2,815
Net income/expenses	(7,561)	1,043
Written-off uncollectible receivables	(488)	(1,739)
Income from collected written-off receivables	1,406	101
Net income/expenses	918	(1,638)
TOTAL:	(389,289)	(761,752)

b) Movements in the balances of impairments

	Loans and receivables from banks (Note 15)	Loans and receivables from customers (Note 16)	Financial assets (Note 14)	Other assets (Note 18)	Total
Opening balance	12	4,813,167	162	70,441	4,883,782
Indirect write-offs of investments (Note 9a)	-	926,965	223	3,514	930,702
Reversal of impairment (Note 9a)	-	(648,413)	(69)	(11,278)	(659,760)
Foreign exchange differences	-	(1,630)	-	15	(1,615)
Indexing impairment currency clause	-	39,224	(91)	-	39,133
Write-off	-	(2,330,869)	-	-19,539	(2,350,408)
Other	19,734	(21,234)	-	295	(1,205)
Closing balance	19,746	2,777,210	225	43,448	2,840,629

The Bank for the period ending 31 December 2016, carried out the recognition of interest income on impaired loans using the effective interest rate on an amortized value of investments and the net value with adjustments recorded revenue in the Income statement and with the calculation of impairment on that basis with adjustments recorded impairment without correction of an allowance account in the balance sheet on that basis. Those positions are corrected on that basis in the amount of RSD 111,704 thousand. Due to the aforementioned impairment expense in the income statement increased by the same amount compared to the amount of expenditure shown in the table of movement in the allowance value.

10. WAGES, COMPENSATION OF WAGES AND OTHER PERSONAL EXPENSES

	In thousands of RSD For the year ended 31 December	
	2016	2015
Wages and compensation of wages	406,900	351,689
Taxes on wages and compensation of wages	51,402	44,259
Contributions on wages and compensation of wages	106,558	94,123
Other personal expenses	34,969	36,858
Provisions for retirements benefits	4,230	-
Reversal of provisions for jubilee awards	(19,523)	-
TOTAL	584,536	526,929

Within the line item Wages and compensation of wages, the amount of RSD 26,857 thousand relates to the Executive board members remunerations, and the amount of RSD 12,169 thousand within the line item Other personal expenses relates to remunerations to the members of the Board of Directors.

During 2016, with agreement between the management and unions of Bank revoked the right of employees to payment of jubilees defined collective agreement. Consequently, the Bank made release of provisions for jubilee awards in the amount of RSD 19,523 thousand.

11. OTHER EXPENSES

	In thousands of RSD For the year ended 31 December	
	2016	2015
Operating expenses		
Material costs	57,151	52,144
Production service costs	321,164	177,357
Non-material costs	248,456	232,831
Taxes	8,169	9,227
Contributions	97,995	86,981
Other costs	1,537	109
Expenses from provisions for liabilities	3,001	36,958
Expenses from other provisions	-	981
Other operating expenses		
Losses from sale of fixed assets and intangible assets	-	1
Other expenses	364	1,363
Expenses from change in liabilities amount	-	20,366
TOTAL	737,837	618,318

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Production service costs mostly relate to rental costs and they amount RSD 132,298 thousand, while Non-material costs mostly relate to paid insurance premium, which amounts RSD 98,008 thousand, and from that amount RSD 84,394 thousand relates to paid insurance premium for retail deposits and insurance premium for cash loans for pensioners in amount of RSD 9,577 thousand.

12. INCOME TAX

a) Income tax components

	In thousands of RSD	
	For the year ended	
	31 December	
	2016	2015
Deferred tax	-	2,344
Effect on gross profit/loss	-	2,344

b) Income tax reconciliation with prescribed tax rates

	In thousands of RSD	
	For the year ended	
	31 December	
	2016	2015
Profit/Loss before Tax	136,080	(187,811)
Income tax at 15%	20,412	-
Tax effects of expenses not recognized in tax balance	(2,821)	(22,533)
Tax effects of income from debt securities	(29,924)	11,062
Harmonization on the basis of transfer prices	914	-
Income tax in tax balance	-	-

c) Components of deferred tax assets

	In thousands of RSD	
	For the year ended	
	31 December	
	2016	2015
Temporary differences on fixed assets	11,762	10,747
Tax loans related to tax losses	43,194	29,746
Tax loans from investment in fixed assets	-	14,524
Impairment of securities held for trading	7,437	7,376
Deferred tax assets	62,393	62,393

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Structure of tax loans:

The amount of remaining tax loan	Allowance for impairment	Total	Year to which transfers
Tax loans from investments in fixed assets			
660	(660)	-	2017
1,129	(1,129)	-	2018
4,387	(4,387)	-	2020
8,348	(8,348)	-	2023
<u>14,524</u>	<u>(14,524)</u>	<u>-</u>	
Tax loans based on tax losses			
29,745	-	29,745	2018
44,922	(31,473)	13,449	2019
29,098	(29,098)	-	2020
11,420	(11,420)	-	2021
<u>115,185</u>	<u>(71,991)</u>	<u>43,194</u>	

13. CASH AND BALANCES WITH CENTRAL BANK

	In thousands of RSD	
	For the year ended 31 December	
	2016	2015
Gyro account	1,639,413	1,249,706
Cash on hand in RSD	297,637	227,895
Deposits of surplus liquidity	-	350,000
Receivables for calculated interest, fee and compensation related to Cash and balances with central bank	19	22
Cash on hand in foreign currency	426,267	244,120
Required reserves with NBS in foreign currency	1,727,276	2,009,664
TOTAL	4,090,612	4,081,407

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

In accordance with article 5 of the Decision the Bank is obliged to calculate and hold on gyro account the required reserve in dinars at 5% rate of the amount of average daily balance of dinar deposits, loans and other liabilities with maturity of up to 2 years during a calendar month, whereas for the deposits, loans and other liabilities with maturity of over 2 years the required reserves rate is 0%. The required reserve is calculated on a monthly basis. National Bank of Serbia calculated and paid interest on required reserved in dinars at 1.75% per annum interest rate.

As of 31 December 2016 Required Reserves in dinars were calculated in the amount of RSD 1,283,036 thousand.

Required reserves in foreign currency represents a minimum average balance of foreign currency, the Bank is obliged to set aside in its account with the NBS, in accordance with National Bank of Republic Serbia's Decision on Banks' Required Reserves on mandatory reserves of banks with (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015). The Bank calculates foreign currency required reserves by applying 20% on the amount of the average daily balance during one calendar month of the foreign currency deposits, loans and other liabilities with maturity of up to 2 years, as well as 13% on foreign currency liabilities with maturity of over 2 years, while 100% is applied on the average daily balance of dinar liabilities indexed in foreign currency. Percent of calculated foreign currency required reserves, which are allocated in dinars, is 38% for deposits, loans and other financial liabilities with maturity of up to 2 years and 30% for deposits, loans and other financial liabilities with maturity of over 2 years. The central bank does not pay interest on foreign currency required reserves.

As of 31 December 2016 the Bank was completely in compliance with the Decision on Banks' Required Reserves with the National Bank of Serbia.

The following table shows the reconciliation statement balance sheet items Cash and balances with the Central Bank on the balance sheet with a cash position at the end of the period Cash flow statement:

	In thousands of RSD		
	For the year ended		
	31 December 2016		
	Cash and balances with central bank in Balance sheet	Cash at the end of the year at Cash -flow statement	Difference
Gyro account	1,639,413	1,639,413	-
Cash on hand in RSD	297,637	297,637	-
Accrued interest, fee and commission based on cash and balances with central banks	19	-	19
Cash on hand in foreign currency	426,267	426,267	-
Obligatory reserve with the NBS in foreign currency	1,727,276	-	1,727,276
Foreign currency accounts with foreign banks	-	519,896	(519,896)
TOTAL	4,090,612	2,883,213	1,207,399

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14. FINANCIAL ASSETS

	In thousands of RSD	
	For the year ended	
	31 December	
	2016	2015
a) Pledged funds		
Treasury bills of the Republic of Serbia	-	358,154
Bonds of the Republic of Serbia	90,000	226,680
	90,000	584,834
b) Financial assets at fair value through profit and loss held for trading		
Banks shares in RSD	519	8,344
Corporate shares	23,465	18,805
Republic of Serbia bonds	-	268,146
	23,984	295,295
Allowance for impairment	-	-
	23,984	295,295
c) Financial assets available for sale		
Local government bonds	86,494	92,218
- Sabac	39,650	39,069
- Stara Pazova	21,753	28,082
- Autonomous Province of Vojvodina	25,091	25,067
Treasury bills issued by Republic of Serbia	207,069	-
Bonds of the Republic of Serbia in RSD	1,947,447	-
Bonds of the Republic of Serbia in foreign currency	936,810	152,293
	3,177,820	244,511
Allowance for impairment of municipal bonds (Note 9)	(225)	(162)
	3,177,595	244,349
d) Financial assets held to maturity		
In RSD	1,168,704	3,027,802
Treasury bills issued by Republic of Serbia	598,823	2,772,295
Bonds of the Republic of Serbia	569,881	255,507
In foreign currency	184,621	421,386
Treasury bills issued by Republic of Serbia	-	241,089
Bonds of the Republic of Serbia	184,621	180,297
	1,353,325	3,449,188
Allowance for impairment	-	-
	1,353,325	3,449,188

As of 31 December 2016, the Bank trades on the Belgrade Stock Exchange with following securities and placements: banks shares and corporate shares.

The portfolio of securities held-to-maturity include bonds and bills issued by the Republic of Serbia.

15. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	In thousands of RSD For the year ended 31 December	
	2016	2015
REPO loans	-	1,300,183
Receivables for calculated interest on loans, deposits and other placements	7	6
Foreign currency accounts	519,896	787,400
Loans in RSD	19,732	-
Other loans in RSD	123,520	-
Deposits in foreign currency	-	243,252
Other placements in foreign currency	122,073	724,242
Other loans in foreign currency	251,230	13
Accrued receivables for interest calculated on loans, deposits and other placements	1,933	1,795
Accrued receivables for interest calculated on loans, deposits and other placements in foreign currency	115	356
Gross loans and receivables from banks and other financial institutions	1,038,506	3,057,247
Allowances for impairment (Note 9)	(19,746)	(12)
TOTAL	1,018,760	3,057,235

During 2016, the Bank's repurchase transactions with the National Bank realized annual interest rates ranging from 2.52% to 2.99%. On 31 December 2016 the Bank had loans based on repo transactions.

Foreign currency assets with the Central Registry of Securities and foreign exchange funds on transaction accounts abroad as of 31 December 2016, the dinar equivalent amount to RSD 519,896 thousand (2015: RSD 787,400 thousand) as seen in the line item of foreign currency accounts. The largest balance makes the state of the accounts with Commerzbank AG (RSD 320,521 thousand), Deutsche Bank AG (RSD 109,660 thousand) and Halkbank AD Skopje (RSD 38,385 thousand).

Position deposits in foreign currency refers to the deposit which was deposited with the bank Turkiye Halk Bankasi AS in the amount of RSD 117,135 thousand (USD 1,000 thousand) and purpose deposit with the Central Registry of Securities in the amount of RSD 4,938 thousand.

Position Other placements in dinars relates to receivables from the National Bank of Serbia agreed to sell foreign currencies.

Position Other placements in foreign currency refers for the most part to receivables for an agreed purchase and sale of foreign currency:

- From domestic banks (Erste Bank ad Novi Sad and OTP Bank Serbia ad Novi Sad) in the amount of 185,208 thousand dinars,
- From foreign banks (Commerzbank AG, Frankfurt, and Deutsche Bank Trust Company, New York) in the amount of 66,009 thousand.

Allowance of placements to banks in the amount of RSD 19,746 thousand mostly relates to

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placements approved in previous years to client Finera factoring DOO (RSD 18,355 thousand) which is the Bank during 2016 properly classified in Loans and advances to banks and other financial organization the sector structure Other services lending and funding, except insurance and pension funding. The result is as of 31 December 2015 was classified as a line item Loans and advances to customers in the amount of RSD 18,081 thousand and fully corrected.

16. LOANS AND RECEIVABLES FROM CUSTOMERS

	In thousands of RSD	
	For the year ended	
	31 December	
	2016	2015
Receivables for calculated interest on loans, deposits and other placements	92,226	89,290
Receivables for calculated fee and commission on loans, deposits and other placements	11,691	14,204
Receivables for calculated interest on loans, deposits and other placements in foreign currency	1,883	1,466
Loans in RSD	25,835,462	22,474,532
Other placements in RSD	304,995	408,495
Loans and placements in foreign currency	564,259	978,395
Other placements in foreign currency	9,557	30,096
Accrued receivables for interest calculated on loans, deposits and other placements	49,855	94,903
Accrued receivables for interest calculated on loans, deposits and other placements in foreign currency	14	23
Accrued income for receivables at amortized cost by applying effective interest rate	(94,949)	(82,754)
Gross loans and receivables from customers	26,774,993	24,008,650
Allowances for impairment (Note 9)	(2,777,210)	(4,813,167)
TOTAL	23,997,783	19,195,483

Short-term loans are granted to companies and entrepreneurs to improve production, trade in goods, services, import, export, maintain current liquidity and other purposes. Short-term loans are approved with the repayment period of 1 to 12 months in dinars, dinar equivalent of the currency amount and in foreign currency.

Loans from the Bank up to one year in dinars were approved with interest rate per annum ranging from 6m BELIBOR + from 0.50% to 29.84%, while loans to one year in dinars, with contracted foreign currency clause and loans in foreign currency, which bear interest at an annual level ranging from 3m Euribor + 2.50% to 9.00%.

Long-term loans were granted in dinars with and without foreign currency clause, in foreign currency at fixed and variable rates.

The largest part of long-term loans disbursed during 2016 related to:

- EUR 4,274,918 of credit lines NBS - Department of Fund Management revolving credit. The loans are granted to small and medium business companies to buy equipment, purchase and construction of facilities where production takes place, as well as for working capital. Repayment period up to 5 years, with a grace period of 12 months and an annual interest rate

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- equal to 3m LIBOR for EUR plus a margin of 2.75% to 3.25%;
- EUR 3,820,000 from the EIB credit line disbursed to SMEs and entrepreneurs through long-term loans. The purpose of financing investment in fixed assets of funds with the repayment period to 10 years, with a grace period of 12 months. The interest rate is variable and consists of the margins of the EIB, the Bank's margin and a fixed margin of the National Bank of Serbia of 0.5% as an agent. The average approved rate of interest is 3.05%.

On claims, related rights and requirements arising from the credit financed from funds received pursuant to the Loan Agreement concluded on 9 June 2011 with the GGF Southeast B.V. established a stock with the final maturity of receivables 15 December 2018. At December 31, 2016 from this credit line in use is the amount of 11,146 thousand (EUR 90 thousand).

Loans and receivables from customers structure

- Gross loans and receivables from customers – Corporate

Gross amount of loans and receivables from customers – Corporate, as of 31 December 2016 is RSD 20,460,407 thousand and has the following structure:

	(in thousand RSD)	
Loan type	Balance as of 31 December 2016	Balance as of 31 December 2015
Loans from bank's resources RSD	3,543,383	3,121,736
Loans from bank's resources-subsidies	23,430	527,625
Loans from the Bank's resources EUR	11,684,941	9,465,679
Loans - EBRD credit line	8,374	22,057
Loans to small and medium-sized enterprises EAR	1,328,099	1,555,703
Hit loans EFSE credit line	346,709	747,858
Loans GGF credit line	11,164	25,611
Loans with EIF guarantee	46,533	200,419
Loans for energy saving KFW	157,719	224,426
Loans EIB credit line	2,901,172	3,608,236
Loans - FMO credit line	82,009	146,402
Loans - Credit line of Government of the Republic of Italy	26,462	86,768
Loans from credit line of IFC	1,610	15,748
Loans from credit line of Demir – Halk Bank (Nederland) N.V.	298,802	-
Total:	20,460,407	19,748,268

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- Gross loans and receivables from customers – Retail

Total gross amount of loans and receivables from customers – Retail, as of 31 December 2016 is RSD 6,253,866 thousand and has the following structure:

	(in thousand RSD)	
Loan type	Balance as of 31 December 2016	Balance as of 31 December 2015
Consumer loans – energy efficiency	361,660	532,662
Consumer loans – vehicle purchase	31,609	60,413
Consumer loans – other purposes	326,756	133,971
Cash loans	2,761,504	1,309,843
Mortgage loans	2,530,638	1,893,575
Receivables related to DinaCard credit card	10,265	16,090
Allowed overdrafts	105,163	83,246
Disallowed overdrafts and due loan receivables	126,271	113,450
Total:	6,253,866	4,143,250

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Movements in the balances of impairments during the year (RSD thousand)

	Loans and receivables from banks	Loans and receivables from customers	Financial assets	Other assets	Total
Opening balance	12	4,813,167	162	70,441	4,883,782
Individual impairment	-	4,768,849	-	70,441	4,839,290
Group impairment	12	44,318	162	-	44,492
Impairment (Note 9a)	-	926,965	223	3,514	930,702
Individual impairment	-	869,349	-	3,512	872,861
Group impairment	-	57,616	223	2	57,841
Income from reversal of impairments (Note 9a)	-	(648,413)	(69)	(11,253)	(659,760)
Individual impairment	-	(637,314)	-	(25)	(637,339)
Group impairment	-	(11,099)	(69)	(11,253)	(22,421)
Foreign exchange gains and losses	-	(1,630)	-	15	(1,615)
Individual impairment	-	(1,629)	-	15	(1,614)
Group impairment	-	(1)	-	-	(1)
Indexing impairment currency clause	-	39,224	(91)	-	39,133
Individual impairment	-	38,943	-	-	38,943
Group impairment	-	281	(91)	-	190
Write-offs	-	(2,330,869)	-	(19,539)	(2,350,408)
Individual impairment	-	(2,330,869)	-	(19,539)	(2,350,408)
Group impairment	-	-	-	-	-
Other	19,734	(21,234)	-	295	(1,205)
Individual impairment	-	-	-	295	295
Group impairment	19,734	(21,234)	-	-	(1,500)
Closing balance	19,746	2,777,210	225	43,448	2,840,629
Individual impairment	-	2,707,329	-	54,699	2,762,028
Group impairment	19,746	69,881	225	(11,251)	78,601

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17. FIXED ASSETS, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

a) INTANGIBLE ASSETS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Cost		
Balance as of 1 January	96,663	86,614
Increase	85,605	10,049
Sale	-	-
Disposals and write-offs	-	-
Balance as of 31 December	182,268	96,663
Accumulated amortization		
Balance as of 1 January	68,578	41,002
Amortization	39,714	27,576
Sale	-	-
Disposals and write-offs	-	-
Balance as of 31 December	108,292	68,578
Net carrying amount		
Balance as of 31 December	73,976	28,085

b) BUILDINGS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Cost		
Balance as of 1 January	700,874	700,802
Increase	9,151	330
Sale	(5,920)	(258)
Disposals and write-offs	-	-
Balance as of 31 December	704,105	700,874
Accumulated amortization		
Balance as of 1 January	197,128	179,864
Amortization	17,447	17,522
Sale	(1,828)	(258)
Disposals and write-offs	-	-
Balance as of 31 December	212,747	197,128
Net carrying amount		
Balance as of 31 December	491,358	503,746

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c) EQUIPMENT

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Cost		
Balance as of 1 January	638,936	572,376
Increase	248,330	71,560
Sale	(10,066)	(5,000)
Disposals and write-offs	(4,125)	-
Balance as of 31 December	873,075	638,936
Accumulated amortization		
Balance as of 1 January	514,112	467,045
Amortization	46,063	47,067
Sale	(10,063)	-
Disposals and write-offs	(4,125)	-
Balance as of 31 December	545,987	514,112
Net carrying amount		
Balance as of 31 December	327,088	124,824

d) INVESTMENT PROPERTY

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Cost		
Balance as of 1 January	147,643	147,643
Increase	-	-
Sale	-	-
Disposals and write-offs	-	-
Balance as of 31 December	147,643	147,643
Accumulated depreciation		
Balance as of 1 January	17,615	13,853
Depreciation	3,691	3,762
Sale	-	-
Disposals and write-offs	-	-
Balance as of 31 December	21,306	17,615
Net carrying amount		
Balance as of 31 December	126,337	130,028

Depreciation expense for the year amounted to RSD 106,915 thousand of which RSD 39,714 thousand relates to intangible assets, RSD 17,447 thousand to buildings, RSD 37,341 thousand to equipment, RSD 8,722 thousand to investments in borrowed fixed assets and RSD 3,691 thousand to investment property.

Appraisal of buildings and investment property is performed in compliance with the Bank's accounting policies every three years. The bank has hired a certified appraiser who appraised all the buildings that are owned by the Bank as at 31 December 2016. In appraising value of buildings, the Bank used the market approach. The appraiser concluded in his report that the

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carrying amount of the Bank's buildings doesn't deviate from market value. On 31 December 2016 Bank has performed impairment test of buildings and investment property with analysis of trends on real estate market during 2016. Impairment did not established. Appraisal of investment property according to the report of certified appraiser on 31 December 2015 would amount to RSD 130,020 thousand. Given that it would not significant real estate market changes it was concluded that fair value of investment property on Balance date does not vary from its latest appraisal on 31 December 2015.

If the Bank applied the cost model when determining the value of the buildings owned by the Bank, its book value would amount to RSD 491,358 thousand as at 31 December 2016.

The Bank has ownership of the property which is disposed and that has not been pledged (collateral) as at 31 December 2016.

During 2016 Bank sold two buildings at locations Radisa Postic 11, Čacak and Danice Marković 74, Čacak. The Bank acquired the mentioned real-estate property in 2003, and sold them in April and May 2016. The carrying amount of real estate in Radisa Postic street at the time of the sale amounted to RSD 1,859 thousand, real estate is sold for RSD 2,821 thousand. The carrying amount of real estate in Danice Markovic street at the time of the sale amounted to RSD 2,233 thousand, real estate is sold for RSD 3,269 thousand.

The largest amount of investments in 2016 relates to IT equipment, furnishing the newly opened branch office and rebranding organizational units of the Bank.

The largest part of increase of intangible assets relates to purchase Microsoft licenses in amount of RSD 58,031 thousand.

18. OTHER ASSETS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Receivables for calculated fee and commission related to other assets	10,089	8,174
Receivables from sale	2,640	1,159
Other receivables from regular operating activities – subsidized interest	27,352	27,010
Receivables for calculated interest related to other assets	10	10
Other receivables in RSD	54,370	112,103
Other receivables in foreign currency	49,153	6,874
Other assets	3,349	22,294
Other accrued expenses	7,035	16,973
Other accrued expenses in foreign currency	-	15,052
Other accrued expenses in foreign currency	10,412	10,216
Inventories	31,638	28,521
	196,048	248,386
Allowance for impairment (Note 9)	(43,448)	(70,441)
TOTAL	152,600	177,945

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

	RSD thousand	
	For the year ended 31 December	
	2016	2015
DEPOSITS FROM BANKS		
Transaction deposits	15,544	19,922
Special-purpose deposits	6,059	6,554
Other deposits	1,693,724	220,001
Other financial liabilities due to banks	378,449	70,387
Interest and fee liabilities due to banks	1,312	2,047
Accrued liabilities for calculated interest on deposits and other financial liabilities due to banks	2,537	1,085
Total deposits and other liabilities due to banks and other financial institutions	2,097,625	319,996

The line item Other deposits refers to short-term deposits of insurance organizations in dinars in the amount of RSD 459,001 thousand and deposits in foreign currencies totaling RSD 1,234,723 thousand (Turkiye Halk Bankasi A.S. Head Office).

The line item Other financial liabilities to banks relate to:

- Liabilities to domestic banks in RSD (Erste Bank ad Novi Sad and OTP Bank Serbia ad Novi Sad) agreed to sell foreign currency in the amount of RSD 185,165 thousand dinars and other financial liabilities in the amount of RSD 417 thousand.

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- Foreign currency financial liabilities relate to obligations to the National Bank of Serbia agreed to sell foreign currency in the amount of RSD 123,472 thousand and obligations to Commerzbank AG, Frankfurt, and Deutsche Bank Trust Company, New York, for an agreed purchase and sale of foreign currency in the amount of RSD 69,395 thousand.

	RSD thousand	
	For the year ended 31 December	
	2016	2015
BORROWINGS FROM BANKS		
Borrowings from banks	617,362	381,385
Accrued liabilities for calculated interest on borrowings	26	3,482
Accrued expenses for liabilities at amortized cost by applying effective interest rate method	-	(2,164)
Total borrowings from banks	617,388	382,703
Total deposits, borrowings and other liabilities to banks, other financial institutions and central bank	2,715,013	702,699

Position Borrowing from banks in amount of RSD 617,362 thousand refers to credit line to Demir Halk Bank (Netherland) NV maturing 2019. The credit line is repayable in two installments.

MATURITY OF LOANS RECEIVED FROM BANKS

Creditors	in EUR thousand	in RSD	in EUR	in EUR
	Balance as at 31 December 2016	thousand Balance as at 31 December 2016	thousand	thousand
			Matures in 2018	Matures in 2019
Demir – Halk Bank (Netherland)	5,000	617,362	2,500	2,500
TOTAL	5,000	617,362	2,500	2,500

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20. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
DEPOSITS FROM CUSTOMERS		
Transaction deposits	8,446,234	7,243,837
Savings deposits	7,116,709	5,275,801
Deposits related to loans	1,024,804	913,090
Special-purpose deposits	355,252	115,475
Other deposits	2,283,691	1,946,525
Other financial liabilities due to customers	66,703	48,768
Interest and fee liabilities due to customers	5,283	4,087
Accrued liabilities for calculated interest and other financial liabilities due to customers	56,741	44,663
Total deposits and other liabilities due to customers	19,355,417	15,592,246
BORROWINGS FROM CUSTOMERS		
Borrowings from customers	6,744,982	7,778,540
Accrued liabilities for calculated interest on borrowings	3,113	6,438
Accrued expenses for liabilities at amortized cost by applying effective interest rate method	(2,460)	(3,844)
Total borrowings from customers	6,745,635	7,781,134
Total deposits, borrowings and other liabilities due to customers	26,101,052	23,373,380

Avista deposits in dinars are, for the most part, comprised of balances at current accounts of corporate customers and other institutions. Interest is calculated and paid on these assets, if average balance during the previous month was above RSD 500 thousand. Standard annual interest rate ranged from 0.25% (for an average deposit of RSD 500 thousand to RSD 5,000 thousand) to 1.00% (for an average deposit of over RSD 20,000 thousand).

Avista savings deposits in dinars and foreign currency and current accounts of retail sector have been deposited with interest rate ranging from 0.00% to 0.05% per annum. Since August 2016, Bank does not calculate the passive interest rate on the category of deposits of retail and agriculture.

Short-term retail deposits have been deposited at interest rate ranging from 3.50% to 4.75% per annum for dinar deposits and from 0.30% to 1.20% for foreign currency deposits.

Long-term retail deposits have been deposited at interest rate ranging from 1.10% to 2.00% for foreign currency deposits.

Corporate avista deposits in foreign currency do not bear interest. Standard interest rates for short-term corporate deposits in dinars were ranging from NBS key policy rate decreased by 4,00 percentage points to NBS key policy rate decreased by 1,00 percentage points, depending on maturity and amount

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Borrowings refer to long-term loans from European Investment Bank in the amount of EUR 39,6 million, German Development Bank (KfW) in the amount of EUR 2,7 million, Government of the Republic of Italy in the amount of EUR 194 thousand, European Agency for Reconstruction in amount of EUR 10,3 million and Green for Growth Fund – GGF in the amount of EUR 1,8 million.

In accordance with the terms of agreements concluded with following international financial institutions, German Development Bank (KfW) and Green for Growth Fund-om (GGF), the Bank is obligated to meet certain financial ratios until the loans are fully repaid. As of 31 December 2016, the Bank was not in compliance with the following covenant:

Financial institution	Covenant	Prescribed value	Realized value
GGF	Open credit exposure ratio	10,00%	23,79%

In accordance with concluded agreements, the Bank reports on a regular basis to international financial institutions on achieved performance indicators, with a detailed explanation of each breached covenant. The Bank does not expect any negative reactions from creditors due to breach of covenants.

Breach in open credit exposure ratio came as a result of a larger decrease of impairment losses and required reserves in relation to the NPL compared to 30 June 2016. The decrease of impairment losses occurred as a result of write-offs that are 100% corrected, and a decrease in the required reserves occurred, the coefficient on the basis of which is adjusted by the amount of required reserves for estimated losses due to the decrease in the share of problem loans to 31 December 2016 in relation to 30 June 2016, in accordance with the amendments to the Decision on classification.

BORROWINGS MATURITY

Borrowings amount by credit facilities which are to be due in 2017

	in EUR thousand Balance as at 31 December	in RSD thousand Balance as at 31 December	in EUR thousand Matures in 2017	in EUR thousand Matures in 2018	in EUR thousand Matures in 2019	in EUR thousand Matures in 2020	in EUR thousand Matures in 2021	in EUR thousand Matures after 2021
Creditors	2016	2016	in 2017	in 2018	in 2019	in 2020	in 2021	2021
EIB	39,621	4,892,052	6,909	7,192	7,155	7,210	4,619	6,536
KfW	2,727	336,743	909	909	909	-	-	-
GGF	1,815	224,102	910	905	-	-	-	-
FRK	10,271	1,268,190	4,657	3,112	1,678	471	353	-
Republic of Italy government	194	23,895	62	62	62	8	-	-
TOTAL	54,628	6,744,982	13,447	12,180	9,804	7,689	4,972	6,536

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21. SUBORDINATED DEBTS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Subordinated debts	-	1,824,392
Accruals for interest liabilities and other expenses compensations related to subordinated debts	-	30,895
Accrued expenses for liabilities at amortized cost by applying effective interest rate	-	(3,546)
TOTAL	-	1,851,741

Bank has no subordinated debts on 31 December 2016. Subordinated debts at the beginning of the year state in the amount of the EUR 15 million were obtained from the European Fund for Southeast Europe (EFSE). Annual interest rate equals to six-month EURIBOR increased by 6.00% margin. Bank prematurely repaid the loan in March 2016.

22. PROVISIONS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
a) Movements in provisions for potential losses on off-balance sheet items		
Balance as of 1 January	2,008	3,051
Increase of provisions	9,333	1,772
Reversal of provisions	(1,772)	(2,815)
Balance as of 31 December	9,569	2,008
b) Movements in provisions for retirement benefits		
Balance as of 1 January	52,673	50,854
Increase of provisions	4,231	3,385
Reversal of provisions	(19,523)	(1,566)
Reversal of provisions by payout	(4,845)	-
Other reversal of provisions	(3,013)	-
Balance as of 31 December	29,523	52,673
c) Movements in provisions for litigation and claims		
Balance as of 1 January	-	1,700
Increase of provisions	-	-
Reversal of provisions	-	(1,700)
Balance as of 31 December	-	-
d) The movement in the provision for short-term severance		
Balance as of 1 January	36,958	-
Increase of provisions	3,374	36,958
Reversal of provisions	(36,958)	-
Balance as of 31 December	3,374	36,958
Balance as of 31 December	42,466	91,639

Provisions at the beginning of the year in amount of RSD 36,958 thousand for the most part

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related to severance which the Bank would be required to pay on the basis of moving Central Bank in Belgrade and expected termination of employment contracts for employees who do not want to accept the transfer of the workplace in Belgrade. Mentioned severance is paid in full during 2016.

The provision for potential losses in the amount of RSD 9,569 thousand (31 December 2015: RSD 2.008 thousand) were formed on the basis of guarantees and other off-balance sheet items in accordance with the Methodology for Calculating Allowances and Provisions.

During 2016 by agreement of management and union of Bank, it was reversed the right of employees to payment of jubilees defined collective agreement. Consequently, the Bank made release of provisions for jubilee awards in the amount of RSD 19,523 thousand.

23. OTHER LIABILITIES

	RSD thousand	
	For the year ended 31 December	
	2016	2015.
Trade payables	40,514	47,770
Received advances	68,128	38,111
Liabilities related to commission operations	75	1,245
Other liabilities from business relations	41,013	-
Accrued liabilities	1,331	5,736
Temporary and suspense accounts	2,314	16,633
Liabilities for salaries	721	392
VAT liabilities	4,915	2,655
Liabilities for other taxes and contributions	1,502	1,052
Accrued liabilities for other calculated expenses	3,791	3,892
Accrued other income	21,459	21,920
Other accruals – subsidized interest	260	8,201
Other liabilities	57,672	27,937
TOTAL	243,695	175,544

Within the line item Trade payables in amount of RSD 40,514 thousand the largest part refers to liabilities arising from the cost of advertising, according to the Initiative doo Beograd around RSD 12 million and McCann doo around RSD 8 million and liabilities from current maintenance equipment to Asseco SEE doo around RSD 5 million. These liabilities were paid in January 2017.

Received advances are related to the payment of clients for outstanding borrowings in amount of RSD 68,128 thousand.

Other liabilities from business relations the largest part refers to liabilities for the second installment to the company Saga for purchased licenses (around RSD 21,000 thousand) and liabilities arising from sold securities and dividends in dinars - clients without bank accounts (RSD 19,395 thousand).

Other liabilities in amount of RSD 57,672 thousand on the 31 December 2016 in largest part refers to:

- Received advances in foreign currency from the National Bank of Serbia for payment of old foreign currency savings (RSD 8,520 thousand),
- Liabilities on the basis of sold securities in foreign currency (RSD 34,461 thousand).

24. EQUITY

Equity and share capital structure

In accordance with the Articles of Association and Statute, the Bank's capital consists of:

- share capital and
- reserves.

The Bank is managed by its founders proportionally with the funds invested in ordinary shares, in accordance with the Articles of Association and Statute of the Bank.

The structure of the Bank's equity as of 31 December was as follows:

	In thousands of RSD	
	31 December 2016	31 December 2015
Share capital – ordinary shares	1,819,820	1,819,820
Share capital – preference shares	601,340	601,340
Share premium	1,827,323	1,827,323
Revaluation reserves	322,675	317,051
Reserves from profit	1,174,274	1,359,742
Retained earnings	138,153	-
Loss to the amount of capital	-	(185,467)
TOTAL	5,883,585	5,739,809

Share capital of Bank consist of 181,982 ordinary share and 60,134 preference shares with nominal value of RSD 10 thousand. Total Bank's equity consist of share capital in the amount of RSD 2,421,160 thousand, share premium in the amount of RSD 1.827.323 thousand, reserves from profit in the amount of RSD 1,174,274 thousand, revaluation reserves in the amount of RSD 322,675 thousand. Bank reported profit in 2016 in the amount of RSD 136,080 thousand.

In November 2015 the Bank had a capital increase from Turkiye Halk Bankasi AS in the amount of RSD 1,200,000 thousand by issuing 60,000 preferred shares with a nominal value of 10,000 dinars. Share premium achieved by the Bank on the basis of this program amounted to RSD 600,000 thousand. The majority owner of Turkiye Halk Bankasi AS is OIB (Turkish Privatisation Administration) with a 51.06% stake.

The Bank is required to maintain a minimum capital adequacy ratio of 12%, as prescribed by the National Bank of Serbia. As of 31 December 2016, the Bank's capital adequacy ratio amounts to 15,64% (2015: 15,79%) which exceeds the NBS prescribed minimum .

Basic earnings per share

	RSD thousand	
	For the year ended 31 December	
	2016	2015
Net profit/loss	136,080	(185,467)
Weighted average number of shares	181,982	181,982
Profit/ (loss) per share in RSD	748	(965)

The structure of the Bank's holders of ordinary shares as of 31 December 2016 was as follows:

No. SHAREHOLDER	Number of shares	% share
1. TURKIYE HALKI BANKASI A.S.	139,680	76.75%
2. BDD M&V INVESTMENTS	8,100	4.45%
3. BDD M&V INVESTMENTS AD-ZBIRNI RAČUN	7,364	4.05%
4. METALAC AD – G. Milanovac	3,044	1.67%
5. ORGANIC FOODS, DRINKS – Bristol	2,941	1.62%
6. Other	20,853	11.46%
TOTAL:	181,982	100.00%

The structure of the Bank's non-cumulative preference shares shareholders as of 31 December 2016:

No. SHAREHOLDER	Number of shares	% share
1. TURKIYE HALKI BANKASI A.S.	60,000	100.00%

The structure of the Bank's cumulative preference shareholders as of 31 December 2016 was as follows:

No. SHAREHOLDER	Number of shares	% share
1. SP Jugoprevoz DP in bankruptcy- Jagodina	44	32.84%
2. Domis Ltd. - Cacak	29	21.64%
3. Interfood Ltd. - Cacak	18	13.43%
4. DP Enipeks in bankruptcy - Cacak	16	11.94%
5. Lazović Zvonko – Cacak	12	8.96%
6. BANCA INTESA – Custody account, Belgrade	11	8.21%
7. Optikom Ltd. - Cacak	2	1.49%
8. Elektrovat – Enel Ltd. - Cacak	1	0.75%
9. Elektrovat Ltd. - Belgrade	1	0.74%
TOTAL:	134	100.00%

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25. OFF-BALANCE SHEET ITEMS

	RSD thousand	
	For the year ended 31 December	
	2016	2015
a) Transactions for and on behalf of third parties	295,879	291,791
b) Guarantees, sureties, collaterals and irrevocable commitments		
Guarantees:		
In RSD	3,327,084	3,495,478
In foreign currency	1,135,460	453,247
	<u>4,462,544</u>	<u>3,948,725</u>
Commitments and irrevocable commitments for undisbursed loans and placements:		
In RSD	1,182,820	831,393
Total b)	<u>5,645,364</u>	<u>4,780,118</u>
c) Financial assets pledged as collateral	<u>90,000</u>	<u>584,834</u>
d) Other off-balance sheet items		
Calculated suspended interest	4,081,544	3,721,064
Commitments for credit facilities	3,714,151	3,083,574
Other off-balance sheet record	43,107,385	39,828,101
Total d)	<u>50,903,080</u>	<u>46,632,739</u>
TOTAL	<u>56,934,323</u>	<u>52,289,482</u>

The line item Commitments and irrevocable commitments for undisbursed loans and placements as of 31 December 2016 relating to unused corporate loans and investments in the amount of RSD 1,015,539 thousand (in 2015 in the amount of RSD 671,811 thousand), unused retail loans and investments in the amount of RSD 151,959 thousand (in 2015 in the amount of RSD 148,762 thousand) and unused loans and investments of entrepreneurs in the amount of RSD 15,322 thousand (in 2015 in the amount of RSD 10,820 thousand).

Within the line item Other off-balance sheet items have been recorded all tangible and intangible assets, which are taken as collateral payments and as at 31 December 2016 amounted to RSD 39,694,058 thousand (2015: RSD 38,495,045 thousand).

Besides, the line item Other off-balance sheet assets as at 31 December 2016 includes:

- receivable of the suspended interest amounting to RSD 4,081,544 thousand (2015: RSD 3,721,064 thousand)
- bonds of the Republic of Serbia in respect of foreign currency savings deposited in the amount of RSD 840,019 thousand (2015: RSD 1,121,657 thousand)
- commitments on the basis of credit facilities RSD 3,714,151 thousand (2015: RSD 3,083,574 thousand)

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- other off-balance sheet items in the amount of RSD 2,573,309 thousand (2015: RSD 211,399 thousand). Within this line item, as at 31 December 2016 the amount of RSD 2,042,043 thousand relates to write-offs of receivables by the decisions of the Board of Directors during 2016. In accordance with the Guidelines of NBS for the implementation International Accounting Standard 39, published in 2016, the banks have been given recommendations related to write-offs of non-performing loans. During 2016 Bank has carried out the amendment in accounting policies due to changes in regulations and technology work by introducing definitions of direct write-offs and a general discharge of the debt. Write-offs of receivables on the basis of decisions of the Board of Directors relating to the direct write-off, respectively termination of the recognition of receivables in the balance sheet of the Bank and a reclassification to off-balance sheet. This write-off does not include a waiver Bank of legal and contractual rights, nor on the collection of these debts, but also performs accounting write-off from the balance sheet records of the Bank, while this market will continue to be maintained in off balance sheet and the Bank continues to lead the activities started on receivables.

26. RELATED PARTY TRANSACTIONS

The Bank enters into transactions with related parties. All receivables and liabilities on the balance sheet and income and expenses incurred during the year are the result of common business activities. Bank on its receivables and liabilities are charged and paid interest calculated by applying the usual interest rates.

The following table represents total balance sheet exposure to related parties that may have an impact on the Bank's operations:

	In thousand RSD	
	31 December 2016	31 December 2015
Loans and advances and other placements		
Turkiye Halk Bankası AS	131,400	525,347
Agrohemija d.o.o. Čačak	5,578	7,392
TRC Pro d.o.o. Petrovaradin	-	3,037
Preduzeće Silver d.o.o Čačak	967	1,798
Ivex drink d.o.o Ivanjica	-	793
Preduzeće TGK d.o.o Čačak	5	700
Jelena Mijailović PR Jewelry, Čačak	-	143
Dekorategs STKR, Čačak	-	134
Retail	146,715	-
Total:	284,665	539,344
	31 December 2016	31 December 2015
Deposits		
Turkiye Halk Bankasi AS	1,234,723	-
Demir Halkbank Holandija	617,362	-
Interprogres Čačak	3,085	-
Agrohemija Ltd.. Čačak	2,153	-
Banprom Ltd.	1,225	-
TIBO Company Ltd. Belgrade Mladenovac	358	-
Jelena Mijailović PR Jewelry, Čačak	353	-

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Bodri Ltd. Gornji Milanovac	175	-
Preduzeće TGK Ltd. Čačak	80	-
Dairy restaurant „SIMIT“ Dragomir Gavrilović preduzetnik Čačak	33	-
VUXA 10 Ltd. Šabac	23	-
DOO Vodopromet Čačak	9	-
Pharmacy Iva Ruža Tomovi entrepreneur Čačak	1	-
ST-KR „Dekoratex“ Munitlak Stamen PR Čačak	1	-
Retail	180,520	-
Ukupno:	2,040,101	-

	31 December 2016	31 December 2015
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Interest and fee income – related parties

Turkiye Halk Bankasi AS	1,463	-
Agrohemija d.o.o. Čačak	596	682
Company Silver doo Čačak	169	-
Interprogres, Čačak	29	24
TIBO Kompanija doo Belgrade Mladenovac	23	-
PD Banprom d.o.o. Pirot	22	4
TRC Pro doo Petrovaradin	-	577
Pharmacy Iva, Čačak	-	148
Retail	9,111	9,388
Total:	11,413	10,823

	31 December 2016	31 December 2015
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Interest and fee expenses – related parties

Turkiye Halk Bankasi AS	406	-
Interprogres, Čačak	5	-
PD Banprom d.o.o. Pirot	3	-
Agrohemija d.o.o. Čačak	2	-
Company Silver doo Čačak	1	-
TRC Pro doo Petrovaradin	-	25
Retail	567	-
Total:	984	25

Gross remuneration to the Chairman and members of the Board of Directors and the Executive Board in 2016 amounted to RSD 48,572 thousand, while in 2015 amounted to RSD 37,843 thousand. Net remuneration of the Chairman and members of the Board of Directors and the Executive Board in 2016 amounted to RSD 38,976 thousand, while in 2015 amounted to RSD 31,155 thousand.

27. FOREIGN CURRENCY POSITION

Balance as of 31 December 2016

ASSETS

In thousand RSD	Foreign currency items in RSD				RSD items	Total
	USD	EUR	Other	Total		
1	2	3	4	5=2+3+4	6	7=5+6
Cash and balances with central bank	74,006	2,045,225	34,312	2,153,543	1,937,069	4,090,612
Pledged financial assets	-	-	-	-	90,000	90,000
Financial assets at FVTPL held for trading	-	-	-	-	23,984	23,984
Financial assets available for sale	-	1,021,063	-	1,021,063	2,156,532	3,177,595
Financial assets held-to-maturity	-	184,621	-	184,621	1,168,704	1,353,325
Loans and receivables from banks and other financial institutions	180,592	449,269	263,440	893,301	125,459	1,018,760
Loans and receivables from customers	1,175	17,779,613	-	17,780,788	6,216,995	23,997,783
Intangible assets	-	-	-	-	73,976	73,976
Property, plant and equipment	-	-	-	-	818,446	818,446
Investment property	-	-	-	-	126,337	126,337
Deferred tax assets	-	-	-	-	62,393	62,393
Other assets	383	29,877	28,293	58,553	94,047	152,600
TOTAL ASSETS	256,156	21,509,668	326,045	22,091,869	12,893,942	34,985,811

LIABILITIES

In thousand RSD	Foreign currency items in RSD				RSD items	Total
	USD	EUR	Other	Total		
1	2	3	4	5=2+3+4	6	7=5+6
Deposits and other liabilities due to banks, other financial institutions and central bank	-	2,024,912	30,761	2,055,673	659,340	2,715,013
Deposits and other liabilities due to customers	260,552	19,365,327	291,564	19,917,443	6,183,609	26,101,052
Provisions	-	-	-	-	42,466	42,466
Other liabilities	10	57,641	21	57,672	186,023	243,695
Shares capital	-	-	-	-	4,248,483	4,248,483
Profit	-	-	-	-	138,153	138,153
Reserves	-	-	-	-	1,496,949	1,496,949
TOTAL LIABILITIES	260,562	21,447,880	322,346	22,030,788	12,955,023	34,985,811

NET EXPOSURE

2016	(4,406)	61,788	3,699	61,081	(61,081)	-
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27. FOREIGN CURRENCY POSITION (continued)

Balance as of 31 December 2015

ASSETS

In thousand RSD	Foreign currency items in RSD				RSD items	Total
	USD	EUR	Other	Total		
1	2	3	4	5=2+3+4	6	7=5+6
Cash and balances with central bank	55,806	2,126,234	71,744	2,253,784	1,827,623	4,081,407
Pledged financial assets	-	584,834	-	584,834	-	584,834
Financial assets at FVTPL held for trading	-	268,146	-	268,146	27,149	295,295
Financial assets available for sale	-	152,293	-	152,293	92,056	244,349
Financial assets held-to-maturity	-	421,386	-	421,386	3,027,802	3,449,188
Loans and receivables from banks and other financial institutions	153,990	1,452,262	148,999	1,755,251	1,301,984	3,057,235
Loans and receivables from customers	-	15,452,385	-	15,452,385	3,743,098	19,195,483
Intangible assets	-	-	-	-	28,085	28,085
Property, plant and equipment	-	-	-	-	628,570	628,570
Investment property	-	-	-	-	130,028	130,028
Deferred tax assets	-	-	-	-	62,393	62,393
Other assets	504	15,498	91	16,093	161,852	177,945
TOTAL ASSETS	210,300	20,473,038	220,834	20,904,172	11,030,640	31,934,812

LIABILITIES

In thousand RSD	Foreign currency items in RSD				RSD items	Total
	USD	EUR	Other	Total		
1	2	3	4	5=2+3+4	6	7=5+6
Deposits and other liabilities due to banks, other financial institutions and central bank	4,131	467,417	-	471,548	231,151	702,699
Deposits and other liabilities due to customers	203,806	18,217,121	203,863	18,624,790	4,748,590	23,373,380
Subordinated debts	-	1,851,741	-	1,851,741	-	1,851,741
Provisions	-	-	-	-	91,639	91,639
Other liabilities	35	27,882	20	27,937	147,607	175,544
Shares capital	-	-	-	-	4,248,483	4,248,483
Losses	-	-	-	-	(185,467)	(185,467)
Reserves	-	-	-	-	1,676,793	1,676,793
TOTAL LIABILITIES	207,972	20,564,161	203,883	20,976,016	10,958,796	31,934,812

NET EXPOSURE

2015	2,328	(91,123)	16,951	(71,844)	71,844	-
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28. RISK MANAGEMENT

In accordance with the Law on Banks and the Decision on Risk Management by Banks issued by the National Bank of Serbia, in Halkbank a.d. Beograd (hereinafter: the "Bank") the risks to which the Bank is exposed in its operations are as follows:

- Liquidity risk;
- Credit risk, including residual risk, receivables impairment risk, settlement / delivery risk, counterparty risk and credit - foreign currency risk;
- Interest rate risk;
- Foreign currency risk and other market risks;
- Concentration risk
- Risks of investment in other legal entities and fixed assets;
- Risks relating the country of origin of the Bank's counterparty;
- Operational risk, including legal risk;
- Risk of inadequate information system management;
- Strategic risk;
- Regulatory compliance risk, which encompasses risk of sanctions by the regulatory authority, risk of financial losses and reputational risk;
- Environmental risk.

The Bank's objectives in terms of risk management, established a system of risk management, are minimization of the negative effects on the financial result and equity based on the Bank's exposure to the risks described above with respect to the defined framework of acceptable risk levels and maintain the required level of capital adequacy.

The Bank's risk management system includes the following:

- Risk management strategies and policies, as well as procedures and guidelines for identification, measurement, assessment and risk management;
- Internal organization i.e. organizational structure ensuring that the risk management and supporting activities are functionally and organizationally separated from risk-taking activities , with clearly defined employee responsibilities, thus preventing conflicts of interest;
- Effective and efficient risk management process that includes mitigation, monitoring and control of risks to which the Bank is exposed or may be exposed;
- Internal control system as a set of processes and procedures in place to adequately control risk, monitoring operations effectiveness and efficiency, reliability of financial and other Bank's data and information, as well as their compliance with regulations and internal procedures and policies, in order to provide operations security and stability;
- Appropriate information system.

The Board of Directors is responsible for establishing complete management system in the Bank and for monitoring such system. The Board of Directors is required to ensure that the Executive Board identifies risks to which the Bank is exposed, as well as to monitor these risks in accordance with the adopted policies and procedures.

The Executive Board is responsible for the implementation process of risk management strategies and policies established by the Board of Directors, establishing procedures and guidelines for identifying, assessing, measuring and managing risk, analyzing the effectiveness of their implementation, and reporting to the Board of Directors regarding aforementioned activities. The Audit Board is responsible for continuous monitoring of application of risk management policies and procedures and implementing internal control system.

The ALCO is responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet assets and liabilities and off-balance sheet items, and proposing measures for risk management.

The Liquidity Committee considers the Bank's exposure to liquidity risk on a daily basis and suggests activities regarding engaging and acquiring funds, bearing in mind the established liquidity goals.

Responsible credit committees decide on loans approval and issuing other placements, as well as altering the terms of aforementioned placements.

The committee for monitoring and collection of potential NPLs, NPLs and disputable loans considers and adopts proposals for resolving settlement of potentially problematic and doubtful receivables, gives suggestions to the Executive Board on closing-out of court settlement agreements and full and partial write-off of problematic and disputable receivables.

The IT Committee reviews and approves IT standards and policies, reports by regulatory and independent controls and gives suggestions to the Executive board regarding implementation of new IT technologies.

28.1 Credit risk

Credit risk management

Credit risk is the risk of negative effects on the financial result and capital of the Bank that may arise as a result of the debtor's failure to meet its obligations toward the Bank. Effects of this risk are measured by the Bank's expenses arising from default on contracted obligations.

The following are responsible for credit risk management in the Bank:

- The Board of Directors adopts the Credit risk management policy;
- The Executive Board implements the adopted policy and determines procedures and instructions for risk management;
- ALCO monitors the Bank's exposure to credit risk and proposes appropriate measures for managing this risk;
- Bank's Credit Committees approve individual placements;
- Committee for monitoring and collection of potential NPLs, NPLs and disputable loans;
- Risk management department that assesses clients' credit risk
- Risk management office observes the credit portfolio quality

According to decisions of the Bank's Board of Directors and the Executive Board, the following Credit committees have been formed:

- The Credit Committee of the Bank;
- The Credit Committee for exposures up to EUR 200,000;
- Credit Committees of branches and
- Credit Committee of sub-branch.

The Credit Committee of Bank makes decisions on approving placements to legal entities and private individuals when the Bank's total exposure to one party or a group of related parties exceeds EUR 200 thousand including the requested placement.

The Credit Committee for exposures up to EUR 200 thousand makes decisions on approving placements to legal entities and private individuals when the Bank's total exposure to one party or a group of related parties, including the requested placement does not exceed EUR 200 thousand.

Credit Committees in branches make decisions on approving placements to legal entities and private individuals when the Bank's total exposure to one party or a group of related a party, including the requested investment, does not exceed EUR 100 thousand in accordance with the limits.

Loans to corporate clients:

- with mortgage up to the amount of EUR 100,000
- with other security up to the amount of EUR 50,000

Loans to retail clients:

- cash and consumer loans up to the amount of EUR 10,000
- car loans up to the amount of EUR 20,000
- housing loans up to the amount of EUR 100,000

Credit Committees for exposure make decisions on approving placement to individuals when the Bank's exposure to single party or a group of related parties, including the requested investment, does not exceed EUR 10,000.

Assessment of exposure to credit risk is carried out in the Lending Department, Risk Management Department, Funds Department and Marketing Department.

In the Funds Department, the Lending Department, the Marketing Department assessment of credit risk is performed through analysis of customer requirements.

The Lending Department for Large Clients and SMEs and Department for Monitoring Financial Assets, identify, control and monitor credit risk at the level of individual borrowers, through the assessment of the creditworthiness of customers and the quality of collateral.

Identification, control and credit risk monitoring on portfolio basis are performed by Portfolio management and reporting department through assembling and analyzing the Bank's portfolio report, classification of balance sheet assets and off-balance sheet items, calculation and recording of reserves for potential losses, calculation of allowances for impairment and provisions, control of balance sheet assets and off-balance sheet items quality.

28.1.2 Financial assets, financial liabilities and off-balance sheet items analysis

The Bank's financial assets and financial liabilities have been presented in the following tables as of 31 December 2016 and 31 December 2015:

- By Balance sheet items, in net amount;
- By credit risk exposure, in gross amount;
- By impairment, in gross and net amount;
- By internal categories in accordance with IAS 39, in gross and net amount;
- By fair value of collaterals, in gross amount;
- By LTV ratio for financial assets secured by mortgage;
- By delays in payment intervals, in gross and net amount;
- By industry sector, in gross and net amount;
- By regions, in net amount;
- By fair value;
- By assets acquired through collection of receivables
- By write-off of receivables
- Overview of restructured financial assets

Financial assets, financial liabilities and off-balance sheet items structure

Financial assets, financial liabilities and off-balance sheet items have been presented in the following overview in the net amount. Loans and receivables from banks and other financial institutions and Loans and receivables from customers have been reduced for the amount of collected, but not yet recognized income, fees for loan servicing expenses, which are taken into account when effective interest rate is calculated in the process of loan approval and latter recognized within interest income by applying effective interest rate method, as well as for the impairment. The Bank does not have accrued fees arising from servicing expenses (effective interest rate) for off-balance sheet items, for the fees are later proportionally accrued, therefore off-balance sheet items are presented in net amount i.e. gross amount is reduced by provisions.

At 31 December 2016, cash, cash equivalents and balances with central banks increased by RSD 9,205 thousand compared to 31 December 2015 and accounted for 12.10% of total financial assets, increased financial resources are available for the sale of RSD 2,575,092 thousand, as well as loans and receivables from customers for RSD 4,802,300 thousand.

At 31 December 2016, deposits and other liabilities to banks, other financial institutions and the Central Bank have increased by RSD 2,012,314 thousand, as well as deposits and other liabilities to other customers to 2,727,672 thousand compared to 31 December. December 2015.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	(net amount, RSD thousand)	
	31 December 2016	31 December 2015
Financial assets	33,904,659	31,085,736
Cash, cash equivalents and balances with central bank	4,090,612	4,081,407
Financial assets at FVTPL held for trading (including pledged assets)	23,984	521,975
Financial assets available for sale (including pledged assets)	3,177,595	602,503
Financial assets held-to-maturity (including pledged assets)	1,443,325	3,449,188
Loans and receivables from banks and other financial institutions	1,018,760	3,057,235
Loans and receivables from customers	23,997,783	19,195,483
Other assets	152,600	177,945
Financial liabilities	29,059,760	26,103,364
Deposits and other liabilities due to banks, other financial institutions and central bank	2,715,013	702,699
Deposits and other liabilities due to customers	26,101,052	23,373,380
Subordinated debts	-	1,851,741
Other liabilities	243,695	175,544

	31 December 2016	31 December 2015
Off-balance sheet items (Net amount)	9,349,946	7,861,684
Guarantees and letters of credit	4,458,173	3,948,456
Large legal entities	796,275	377,296
Medium, small and micro entrepreneurs	3,649,428	3,566,208
Retail	4,322	3,034
Other clients	8,148	1,918
Undisbursed liabilities	4,891,773	3,913,228
Large legal entities	368,432	256,590
Medium, small and micro entrepreneurs	4,349,418	3,495,869
Retail	169,538	157,946
Other clients	4,385	2,823

Gross credit risk exposure

Gross credit risk exposure for loans and receivables from customers increased as of 31 December 2016 compared to 31 December 2015 in amount of RSD 2,766,343 thousand. Exposure to the public sector increased by RSD 401,706 thousand, according to large corporate clients for by RSD 179,504 thousand; medium, small, micro companies and entrepreneurs by RSD 1,891,453 thousand and the retail by 2,102,626 thousand dinars. The exposure was reduced to RSD 1,808,946 thousand to other clients, non-profit legal persons, entities engaged in social activities and legal entities in bankruptcy.

In the gross amount of loans and receivables from customers, the greatest relative decreased relates to other customers by 38.28%, Other categories have increased by 13.47% (Medium, small and micro corporate customers) and 50.99% (retail customers).

Credit risk - gross exposure	(RSD thousand)	
	31 December 2016	31 December 2015
Financial assets	36,745,288	35,969,518
Cash and balances with central bank	4,090,612	4,081,407
Financial assets at FVTPL held for trading	23,984	521,975
Financial assets available for sale (including pledged assets)	3,177,820	602,665
Financial assets held-to-maturity (including pledged assets)	1,443,325	3,449,188
Loans and receivables from banks and other financial institutions	1,038,506	3,057,247
Loans and receivables from customers	26,774,993	24,008,650
Comprising:		
Public sector	512,200	110,494
Large corporate customers	1,188,399	1,008,895
Medium, small and micro corporate customers and entrepreneurs	15,931,260	14,039,807
Retail customers	6,226,436	4,123,810
Other customers	2,916,698	4,725,644
Other assets	196,048	248,386

Gross exposure to credit risk due to guarantees and letters of credit has increased as of 31 December 2016 compared to 31 December 2015 by RSD 514,088 thousand. Gross exposure under guarantees and letters of credit to the big corporate customers increased by RSD 418,979 thousand, according to the medium, small and micro companies and entrepreneurs increased by the amount of RSD 83,291 thousand, according to population 1,288 thousand and to other customers (non-profit companies and engaged in social activities) has been increased to RSD 10,530 thousand.

Undisbursed liabilities increased as of 31 December 2016 compared to 31 December 2015 by RSD 983,743 thousand, i.e. 25%. Gross exposure arising from undisbursed commitments towards large corporate customers increased by RSD 111,842 thousand, according to the medium, small and micro companies and entrepreneurs increased by the amount of RSD 853,478 thousand, retail increased of RSD 11,592 thousand and other clients (companies and non-profit engaged in social activities) increased by RSD 6,831 thousand.

Gross exposure by off-balance sheet items (RSD thousand)

	31 December 2016	31 December 2015
Off-balance sheet items	9,359,515	7,863,692
Guarantees and letters of credit	4,462,544	3,948,725
Large corporate customers	796,275	377,296
Medium, small and micro corporate customers and entrepreneurs	3,649,499	3,566,208
Retail customers	4,322	3,034
Other customers	12,448	2,187
Undisbursed liabilities	4,896,971	3,914,967
Large corporate customers	368,432	256,590
Medium, small and micro corporate customers and entrepreneurs	4,349,347	3,495,869
Retail customers	169,538	157,946
Other customers	9,654	4,562

Total balance sheet and off-balance sheet exposures to certain sectors moving within the prescribed internal limits:

- The public sector (national authorities and organizations, the obligatory social security, autonomous provinces, local government, legal entities financed from the budget) up to 10% of the gross balance sheet assets that are classified - as at 31 December 2016 the share is 1.51%.
- Companies up to 90% of the gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 the share is 61.48%.
- The population of up to 25% of gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 the share is 18.93%.

Financial assets by impairment

Individual assessment

In accordance with IAS 39, the Bank first assess if there is objective evidence of impairment ("circumstances leading to loss") of an individual financial asset, or group assessment of non-material financial assets will be performed. Financial assets which exceed set limits or bear special risk related to client/transaction (e.g. industry sector concentration, rating categories, delay status, loan type, client's risk, etc.) are considered to be individually significant.

Based on the Bank's internal Methodology for calculation of impairment and provisions in accordance with IAS (further: The Methodology), each financial asset amounting to over RSD 2,500 thousand is considered to be significant, and therefore, for those assets, objective circumstances for the individual assessment of impairment are analyzed. The Methodology further specifies that for each financial asset, no matter if it is individually material or not, which is in delay, individual assessment is performed.

Objective evidence of impairment of financial asset include following circumstances, which could cause losses:

- 1) The Debtor is in delay by any materially significant liability due to the Bank;
- 2) If there are other circumstances that could cause loss, no matter the possibility of collection by recognizing the collateral, and especially:
 - Corporate customers suspense of interest in accordance with the Bank's internal regulations;
 - Partial or total impairment of receivable;
 - Restructuring of receivable due to aggravation of the debtors financial position, including reduction of principal or repayment period prolongation for principal, interest or fees;
 - Bankruptcy or liquidation of the debtor.

Materially significant amount is the amount which exceeds 1% of single receivable which client is due to the Bank, but not less than RSD 1,000 for retail customers i.e. RSD 10,000 for corporate customers. Therefore, receivables in delay include only materially significant amounts.

The Bank determines and reports default status of corporate customers on the basis of individual debtor and for all receivables from that debtor. Default status of debtors, who are entrepreneurs, agricultural households and private individuals, the Bank determines and reports on the basis of single receivable.

Definition of default, in repayment of liabilities to the Bank, depends on the type of corresponding financial asset. For this purpose, financial assets are divided into four portfolios:

- Retail customers;
- Corporate customers;
- Banks and other financial institutions;
- Public sector (Government).

For financial assets having retail customers as debtors, default has occurred if:

- A single receivable from customer is overdue for more than 90 days, as of reporting day;
- There are other circumstance that could cause a loss.

Due to uniqueness of the product, it is considered that the granted loan is in default, if it is overdue for more than 60 days. Those transactions are to be considered in default, when the client breaches current account limit or it has been noticed that the limit is less than the current debt.

For corporate customers to be in default, at least one of the following conditions must be met:

- The client is overdue for more than 90 days, whereby delay by all currently existing receivables from the client is taken into account;
- There are other circumstance that could cause a loss.

For entrepreneurs and agricultural households to be in default, at least one of the following conditions must be met:

- A single receivable from customer is overdue for more than 90 days, as of reporting day;
- There are other circumstance that could cause a loss.

Granted loans (Overdrafts) are considered to be in default if the client breaches current account limit or there is unsettled amount, after the granted loan has become due.

There is default in repayment of bank, if:

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- The Bank is late in its payments (even for 1 day) or
- There are other circumstance that could cause a loss.

For the impairment purposes, it is considered that placements to public sector (Government) have probability of default (PD) equal to 0. Therefore, it is believed that Government cannot be in default in the repayment of its liabilities and there is no need for impairment.

Individual assessment process comprises two phases:

- Identification of circumstances which could cause loss;
- Assessment of individual cash flow for impairment purposes.

Individual assessment is performed based on cash flows, depending on:

- Number of days overdue;
- Repayment dynamic in the previous period;
- Collateral quality;
- Concluded protocols, related to repayment of receivables, agreements (e.g. Surety Agreement, Debt Assumption Agreement).

Impairment is formed as a difference between the net present value of receivable and discounted net cash inflows, by discounting future cash flows to its net present value.

For the calculated impairment of financial assets, the Bank recognizes an expense in the Statement of profit and loss and corresponding allowances for impairment, while for the calculated probable loss on off-balance sheet items the Bank recognizes the expense and corresponding provisions.

Group assessment

Each financial assets for which there is no objective evidence of impairment is included in the group of receivables with similar credit risk characteristics and impairment is assessed for the group as a whole. The Bank forms allowances for impairment for financial instruments, which are not in default, in the amount of share of the placement for which is presumed that circumstances that could cause loss have occurred, but still have not been objectively identified by the Bank.

For that purpose, for client/financial asset that are not in default, part of the placement, for which it is assumed that after the loss identification period (LIP), it will become overdue in repaying its liabilities, is identified. That way, based on the review of previous events, allowances for impairment are determined based on assumptions that for the certain number of placements, circumstances that represent probability of default in repayment have happened, but have not yet been identified. LIP equals to 1 for each receivables.

Group assessment is performed by the related groups of clients, divided into groups in accordance with Methodology, based on the classification category, regularity of repayments, sector, type of product, type of collateral.

When performing group assessment, the impairment amount is equal to product of the probability of scenario that causes loss, (PD*(1-RI)) and the loss amount (LA), that is:

$$\text{Impairment Loss} = \text{PD} * (1 - \text{RI}) * \text{LA}$$

Inputs:

PD – probability of default

RI - repayment indicator, which shows share (percent) of the transaction in default, which has been realized naturally (without sale of collateral) during the given time period;

LA – Loss Amount, in the case of repayment,

In order to calculate RI, the Bank determines probability of return to no default group for all groups that are in default, in 12 month time period.

Discount rates, which the Bank uses to discount market value to the amount used in the calculation of impairment are defined in the collateral valuation procedure, however for the purposes of calculation of impairment of pledged, debt and equity, securities, market value of the security as of calculation date is applied. Allocation of collateral is performed in accordance with instructions on collateral registration and allocation.

Impairment should be equal to the carrying amount of financial asset reduced by net present value of estimated future cash flows, by presuming that it will enter in default and that it will be collected through collateral. These cash flows should be comprised of estimated repayment of principal and interest by client and collection from collateral, decreased by all expenses arising from collection process. Present value of these cash flows is calculated by discounting estimated cash flows by applying effective interest rate.

Total allowance for impairment for financial assets as of 31 December 2016 amounts RSD 2,840,629 thousand (31 December 2015: RSD 4,883,782 thousand) therefore it increased by RSD 2,043,153 thousand compared to 31 December 2015, i.e. by 41.84%. The biggest influence of the total allowances for impairment is a decrease in individual adjustments due to direct write-offs.

Overview of financial assets by impairment (RSD thousand)

	31 December 2016	31 December 2015
Undue and unimpaired	30,077,727	27,740,673
Due, unimpaired	783,245	223,116
Impaired	5,884,316	8,005,729
Total gross amount	36,745,288	35,969,518
Group impairment	78,601	66,838
Individual impairment	2,762,028	4,816,944
Total impairment	2,840,629	4,883,782
Total net amount	33,904,659	31,085,736

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Financial assets by categories

The following overview presents financial assets used for impairment calculation in accordance with IAS 39. During 2016, the gross and net amount of financial assets without category – not to be classified has increased (by RSD 254,363 thousand and RSD 253,094 thousand, respectively), due to increase of receivables from the Government and the National Bank of Serbia. The difference between gross and net amount of financial assets without category, according to IAS 39 comes from calculation of impairment for subsidized interest. The Bank has performed individual impairment for all receivables from the Government (Ministry of finance and Development fund) for subsidized interest, which are in default.

The amount of financial assets classified in better categories – A1 and A2 according to IAS 39, has increased by RSD 2,518,132 thousand in 2016 in the gross amount due to the increase in total financial assets. The amount classified in worse categories A3, A4 and A5 has been increased in gross amount of RSD 663,755 thousand due to increased delay and transition better categories into something worse. The amount in the worst financial assets category (A6) has been decreased in gross amount of RSD 2,660,521 thousand due to write-offs and collection of problem debts.

The participation of specific categories of gross and net amounts of financial assets in the total amount of financial assets as of 31 December 2016 and 31 December 2015 is presented as follows:

Overview of financial assets by categories in accordance with IAS 39 Impairment calculation methodology (RSD thousand)

Categories	31 December 2016		31. December 2015	
	Gross exposure	Net exposure	Gross exposure	Net exposure
A0-no category	4,958,180	4,910,045	4,703,776	4,656,887
Category A1 and A2	24,926,304	24,875,950	22,408,172	22,395,503
Category A3, A4, A5	1,867,515	1,715,375	1,203,760	1,104,357
Category A6	4,993,289	2,403,289	7,653,810	2,928,989
Total	36,745,288	33,904,659	35,969,518	31,085,736

Share of specific IFRS categories in the total amount of financial assets presented as percent is as follows:

Categories	31 December 2016		31 December 2015	
	Gross	Net	Gross	Net
A0-no category	13,49%	14,48%	13,08%	14,98%
Category A1 and A2	67,84%	73,37%	62,30%	72,04%
Category A3, A4, A5	5,08%	5,06%	3,35%	3,55%
Category A6	13,59%	7,09%	21,28%	9,42%
Total	100,00%	100,00%	100,00%	100,00%

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Fair value of collaterals

Collateral management system at the Bank involves a set of activities and prescribed measures and rules to be applied for the purpose of continuous recording, allocation and valuation of collateral (collateral).

For the purposes of assessing additional credit risks arising from possible problems in the realization of collateral and the interval between the failure to fulfill the obligations of the debtor and the possibility of the Bank to realize the collateral, the market value of the collateral against which it is established or to be established collateral is reduced to form the value that the Bank has made in the event of any sale of goods for the purposes of collecting its receivables are the assets secured.

Fair value of collaterals is presented in the following overview by appraised market value, but only to the amount of receivable it secures. This is valid for mortgages, pledges, deposits and guarantees by debtors.

Coverage of financial assets in total by collaterals valued this way as of 31 December 2016 amounts 44,75%. Coverage of individually secured gross financial assets is 85,77%, while coverage with only mortgage is 80,23%. Coverage of due, but not impaired financial assets by the collaterals in total, amounts 10,05%, and by mortgage 7,59%. Coverage of undue and unimpaired financial assets by the collaterals in total, amounts 37,63%, and by mortgage 28,90%.

Assessment of collaterals fair value by placements as of 31 December 2016 (RSD thousand)

	Gross assets	Mortgages	Pledges	Deposits	Other
Financial assets	36,745,288	13,472,969	1,197,026	758,394	1,015,690
Individually impaired	5,884,316	4,721,113	104,344	59	221,681
Due, unimpaired	783,245	59,445	12,005	4,050	3,193
Undue, unimpaired	30,077,727	8,692,411	1,080,677	754,285	790,816

Assessment of collaterals fair value by placements as of 31 December 2015 (RSD thousand)

	Gross assets	Mortgages	Pledges	Deposits	Other
Financial assets	35,969,518	13,784,053	1,046,044	557,580	436,548
Individually impaired	8,005,729	5,531,005	137,192	1,761	172,449
Due, unimpaired	223,116	62,587	9,841	4,184	1,320
Undue, unimpaired	27,740,673	8,190,461	899,011	551,635	262,779

LTV ratio

In financial assets secured by mortgage, the largest share (36.86%) is held by mortgages with LTV ratio under 50%, further mortgages with LTV ratio from 51% to 70% (27.50%), then mortgages with LTV ratio from 71% to 90% having share of 17.90%, mortgages with LTV ratio from 91% to 100% which have a share of 6.89%, and mortgages with LTV ratio above 100% (which are inadequate collateral) with participate with only 10.84%.

LTV ratio as of 31 December 2016 (RSD thousand)

	Under 50%	51%-70%	71%-90%	91%-100%	Above 100%
Financial assets secured by mortgage	4,965,969	3,705,532	2,411,823	928,567	1,461,080
Individually impaired	973,144	1,261,675	1,046,394	501,599	938,303
Due, unimpaired	37,364	13,411	5,010	2,426	1,234
Undue, unimpaired	3,955,461	2,430,446	1,360,419	424,542	521,543

LTV ratio as of 31 December 2015 (RSD thousand)

	Under 50%	51%-70%	71%-90%	91%-100%	Above 100%
Financial assets secured by mortgage	6,120,202	2,579,323	2,527,995	717,171	1,839,363
Individually impaired	1,491,924	646,158	1,382,828	403,646	1,606,449
Due, unimpaired	43,426	9,473	6,352	2,402	934
Undue, unimpaired	4,584,852	1,923,692	1,138,815	311,123	231,980

Financial assets by days overdue

As of 31 December 2016 share of financial assets with no days overdue in total financial assets amounts to 83.83%, in delay from 1 to 30 days 3.99%, in delay from 31 to 90 days 0.51%, in delay from 91 to 180 days 0.08%, in delay from 181 to 365 days 1.22%, and in delay for more than 365 days 10.37% of financial assets in total.

Overview of financial assets by the intervals of delay (RSD thousand)

	31 December 2016		31 December 2015	
	Gross exposure	Net exposure	Gross exposure	Net exposure
No delay	30,804,118	30,343,610	26,743,659	26,539,773
1-30 days	1,464,948	1,460,392	1,775,687	1,768,792
31-90 days	187,734	173,740	271,260	251,479
91-180 days	29,403	18,519	64,327	45,845
181-365 days	450,053	252,461	1,092,458	642,881
Above 365 days	3,809,032	1,655,937	6,022,127	1,836,966
Total	36,745,288	33,904,659	35,969,518	31,085,736

Financial assets by industry sectors

The following overview presents financial assets structure by industry sectors, in gross and net amount.

Total balance sheet and off-balance sheet exposures to individual business segment moving within the prescribed internal limits:

- Agriculture, hunting, forestry, water management and fishing up to 10% of the gross balance sheet assets and off-balance sheet items are classified,

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- Mining and quarrying and manufacturing industry up to 60% of the gross balance sheet assets and off-balance sheet items are classified,
- Production and supply of electricity, gas and water up to 15% of the gross balance sheet assets and off-balance sheet items are classified (31 December 2016 the share is 0.28%)
- Construction up to 15% of the gross balance sheet assets and off-balance sheet items are classified – as at 31 December 2016 the share is 8.11%
- Wholesale trade, retail trade, repair of motor vehicles, motorcycles and household use and up to 25% of gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 the share is 13.88%
- Hotels and restaurants, transport, storage and communications up to 15% of the gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 amounts to 5.36%
- Education, health and social work (if it is not financed from the budget) up to 10% of the gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 the share is 0.22%
- Activities related to real estate, renting and business activities, other community, social and personal services up to 15% of the gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 share amounted to 1.82%
- Retail, up to 25% of gross balance sheet assets and off-balance sheet items are classified - on the day 31 December 2016 share amounted to 13.41%
- Banks, including foreign entities, up to 20% of the gross balance sheet assets and off-balance sheet items are classified - as at 31 December 2016 the share is 7.01%
- Other clients (for-profit and non-profit legal entities and other clients that are not financed from the budget, with the exception of legal entities and banks in bankruptcy) up to 5% of the gross balance sheet assets and off-balance sheet items are classified - as at 31.12.2016. the share is 1.27%.

On 31 December 2016, the largest share in the gross financial resources to the processing industry with 29.56%, followed by trade and repair of motor vehicles and motorcycles 14.42%, followed by the population with 13.92%, construction 8.42% banks, financial institutions and insurance accounted for 7.28%

Concentration of financial assets by industry sectors (RSD thousand)

	31 December 2016		31 December 2015	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry, fishing	191,109	188,617	246,265	151,445
Mining	94,916	93,443	184,860	184,660
Processing industry	10,680,046	8,849,575	10,149,514	7,520,623
Supply of electric energy, gas and conditioning	100,095	99,656	4	4
Construction	1,264,720	1,003,619	1,070,714	791,929
Trade, repair of motor vehicles and motorcycles	4,754,639	4,378,379	5,227,222	4,175,060
Transportation and warehousing, accommodation and food services, information and communication	1,901,272	1,704,090	1,245,870	1,032,282
Real estate, professional, scientific and technical activities, activities, arts, entertainment and recreation	618,504	612,925	376,618	368,141
Banks, financial organizations, insurance	2,848,103	2,823,775	7,214,376	7,189,277
Retail customers	6,244,636	6,156,142	4,139,645	4,059,578
Other	8,047,248	7,994,438	6,114,430	5,612,737
Total	36,745,288	33,904,659	35,969,518	31,085,736

Concentration of off-balance sheet items by industry sectors (RSD thousand)

	31 December 2016		31 December 2015	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry, fishing	88,316	88,270	45,044	44,984
Mining	30,425	30,421	21,250	21,247
Processing industry	2,948,525	2,942,895	2,249,737	2,248,723
Supply of electric energy, gas and conditioning	34,689	34,626	-	-
Construction	2,617,414	2,616,804	2,178,051	2,177,903
Trade, repair of motor vehicles and motorcycles	1,892,094	1,889,884	2,087,754	2,087,197
Transportation and warehousing, accommodation and food services, information and communication	664,087	663,369	576,249	576,137
Real estate, professional, scientific and technical activities, activities, arts, entertainment and recreation	253,883	253,716	274,395	274,341
Banks, financial organizations, insurance	507,577	507,577	66,823	66,823
Retail customers	173,867	173,859	160,980	160,980
Other	148,638	148,525	203,409	203,349
Total	9,359,515	9,349,946	7,863,692	7,861,684

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Financial assets by regions

Financial assets by exposure to specific regions are presented in the following overview. Debtors from Serbia have dominant share in total net exposure (98.04%). European Union debtors are involved with 1.37%, debtors from USA and Canada with 0.18%, and debtors from other regions with 0.41%.

Concentration of financial assets by regions in net amount (RSD thousand)

	31 December 2016	31 December 2015
Serbia	33,239,355	29,588,092
European Union	465,065	705,936
USA and Canada	61,532	18,970
Other	138,707	772,738
Total	33,904,659	31,085,736

Total balance sheet and off-balance sheet exposures to specific geographical areas in Serbia move within the prescribed internal limits:

- Region of Central and Western Serbia up to 70% of the gross balance sheet assets and off-balance sheet items are classified,
- Region Belgrade up to 50% of the gross balance sheet assets and off-balance sheet items are classified,
- Region of up to 30% of the gross balance sheet assets and off-balance sheet items are classified,
- Region of Eastern and Southern Serbia up to 20% of the gross balance sheet assets and off-balance sheet items are classified
- Region outside the territory of Serbia up to 20% of the gross balance sheet assets and off-balance sheet items are classified.

Write-offs

The Bank will appropriately manage the collection of non-performing loans until estimated to be economically feasible to undertake activities related to payment.

If the Bank estimates that the placement will not be charged, in accordance with the guidelines of the NBS, the bank will write off such claims, it does not include a waiver of the Bank's contractual obligations and legal rights from investments.

Direct write-off of receivables, and derecognition of loans or work placements in the balance of the Bank and a reclassification to off balance sheet of the Bank, does not mean the loss of or retired from the collection of the Bank

In order to reduce the problem of gross receivables, the Bank will primarily have a direct write-off of all claims that are indirectly written off completely (100% corrected).

In determining impairment and transfer to off balance sheet are taken into account the following criteria:

- Placement not secured by collateral, if the borrower is in bankruptcy for over a year;
- Placement not secured by collateral, if the borrower is in default over three years,

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- Placement of inertia, which is provided pursuant to which the debtor is in default over three years, unless the bank during this period has not started the process of collection of collateral, nor has made payment of the co-debtor or the guarantor;
- Other investments in which there are elements that indicate the aggravated collection (eg. The placement of the debtor who has been deleted from the register of companies, and did not continue to operate through the status change of merger, acquisition or division, the placement of a deceased natural person). General debt forgiveness extinguishes all the Bank's claims against the debtor.

Loan rescheduling and restructuring

During 2016. the Bank has restructured its receivables in accordance with the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items.

In accordance with the amendment of the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items as of 29 June 2016 the delay in the collection of receivables is calculated according to the latest agreed maturity date, and the amount of the claim that is materially.

Restructuring of the claims approval, due to financial difficulties of the debtor, concessions regarding the repayment of the individual claims which were not granted to the borrower is not in these difficulties, regardless of whether a certain amount of the claims due, whether the claim is impaired and whether is it performed status of default obligations in accordance with the decision on bank capital adequacy, and on at least one of the following ways: changing the conditions under which the claim arose, particularly if they are subsequently agreed repayment terms more favorable claims from the initially agreed (reduction in interest rates, write-off of part of the principal means by which the derecognition of that part of the income, write-off of part of accrued interest, change the due date of principal and / or interest, etc.) or in relation to conditions that at the time of changing conditions approved another debtor with the same or similar levels of risk.

Refinancing of receivables is the emergence of the new bank's receivables from investments, which was approved in order to settle part or all of the amount that the borrower has an obligation to the bank or other legal entity which has been ceded claim against the debtor.

The restructured receivables from legal entity include:

- Receivables from debtors that are restructured at the Bank level, where the requirements of restructuring are defined by the Bank;
- Receivables from debtors that have restructured in cooperation with other creditors, either on the basis of the interbank agreement on the same terms restructuring or on the basis of the Law on consensual financial restructuring of companies with the participation of institutional intermediaries
- Receivables from debtors for which a prior bankruptcy proceedings submitted to and approved in advance a plan of reorganization and
- Receivables from debtors in which the bankruptcy procedure proposed and adopted Plan of reorganization of the debtor

In taking measures to restructure the Bank is obliged to assess whether the restructuring of loans to an individual debtor sustainable and economically feasible for the Bank and borrowers, as well as to establish a restructuring plan and to regularly monitor its implementation and effects.

The bank regularly, at least once every six months, monitor the implementation of the restructuring plan investments, taking into account the size and importance of the claim that is the subject of restructuring in relation to the other claims of the Bank, as well as the specificity of the restructuring plan and the Bank's activities provided for in the plan.

The Bank may stop to consider the claim as restructured at the end of the test period under the following conditions:

- Restructured loan is not classified in the group of problematic claims;
- The borrower's regular payments of principal and interest repaid a material portion of the total amount of debt for at least half of the trial period;
- The debtor is overdue more than 30 days on any obligation to the bank.

Overview of loans restructured during 2016 is presented as follows (in RSD thousand, by the number of clients and loans):

Balance as of 31 December 2016	Number of clients	Restructured loan number
981,319	23	41

As of 31 December 2016, the Bank has 23 clients with 41 restructured loans. Total gross amount of restructured and impaired loans is RSD 981,319 thousand, and net amount is RSD 628,328 thousand.

Overview of total restructured and impaired loans in 2016

31 December 2016	Gross exposure in RSD thousand	Allowances for impairment	Net exposure in RSD thousand	Number of clients	Number of parties
A1	-	-	-	-	-
A2	146,682	400	146,282	1	5
A3	652	4	648	3	3
A4	6,494	637	5,856	14	15
A5	51,414	447	50,967	7	9
A6	-	-	-	-	-
A7	4,212,024	1,799,993	2,412,031	84	140
Total	4,417,266	1,801,481	2,615,784	109	172

Overview of total restructured and impaired loans in 2015

31 December 2016	Gross exposure in RSD thousand	Allowances for impairment	Net exposure in RSD thousand	Number of clients	Number of parties
A1	-	-	-	-	-
A2	-	-	-	-	-
A3	-	-	-	-	-
A4	1,335	246	1,089	3	3
A5	10,337	457	9,880	7	7
A6	15,839	6,866	8,973	27	27
A7	2,239,729	909,731	1,329,998	40	67
Total	2,267,240	917,300	1,349,940	77	104

Fair Value of assets and liabilities

The fair value which is stated in the financial statements is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an independent transaction.

The fair value is calculated by using market information available at the reporting date.

The fair value of a current liquidity financial instrument shown at its nominal value is approximately equal to its carrying amount. This includes cash, as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected cash flow is discounted to their net present value by applying current interest rates. Regarding that the variable interest rates have been agreed for the most of the Bank's financial assets and liabilities, changes in current interest rates lead to changes in the agreed rates.

Quoted market prices are used for securities held for trading. The fair value of other securities is calculated as the net present value of expected future cash flows using the interest rates for similar securities.

The fair value of irrevocable credit commitments and contingent liabilities is the same as their carrying amount.

Fair value of assets and liabilities (RSD thousand)

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets at fair value through profit and loss held for trading	23,984	-	-	23,984
Financial assets available for sale	-	3,177,595	-	3,177,595
31 December 2015				
Financial assets at fair value				
Financial assets at fair value through profit and loss held for trading (including pledged assets)	27,149	494,826	-	521,975
Financial assets available for sale (including pledged assets)	-	602,503	-	602,503

Financial instruments assessment

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market prices on active markets for identical assets or liabilities;
- Level 2: valuation techniques based on directly or indirectly determined inputs, other the level 1 quoted prices. Indirectly determined inputs are used for valuation of instruments, based on quoted market prices on active markets, for similar instruments; stated prices for same or similar instruments on less active markets; other valuation techniques in which all significant inputs are, directly or indirectly, determined from market data;
- Level 3: Valuation techniques that use significant undeterminable inputs. This category includes all instruments for which the valuation technique includes inputs based on determinable data and undeterminable inputs have significant effect on the instrument valuation. This category includes instruments valued based on quoted prices of similar instruments, for which significant invisible adjustments or assumptions are required to reflect differences between the instruments.

The fair value of loans and deposits is estimated by discounting the future contractual cash flows at the interest rates applied by the Bank for their products and that don't deviate significantly from the market interest rates for similar financial instruments. This is determined by the fair value doesn't deviate significantly from the value at which the loans and deposits denominated in business books of the Bank. Management believes that the amounts in these financial statements reflect the value that is in given circumstances, most valid and useful reporting.

The Bank's management estimates that there is no difference between the fair value and the carrying amount.

Financial assets and liabilities not carried at fair value (RSD thousand)

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	-	4,090,612	-	4,090,612
Financial assets held to maturity (including pledged assets)	-	1,443,325	-	1,443,325
Loans and receivables from banks and other financial institutions	-	-	1,018,760	1,018,760
Loans and receivables from customers	-	-	23,997,783	23,997,783
Other assets	-	-	152,600	152,600
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and central bank	-	-	2,715,013	2,715,013
Deposits and other liabilities due to customers	-	-	26,101,052	26,101,052
Subordinated debts	-	-	-	-
Other liabilities	-	-	243,695	243,695
31 December 2015				
Financial assets				
Cash and cash equivalents	-	4,081,407	-	4,081,407
Financial assets held to maturity (including pledged assets)	-	-	3,449,188	3,449,188
Loans and receivables from banks and other financial institutions	-	-	3,057,235	3,057,235
Loans and receivables from customers	-	-	19,195,483	19,195,483
Other assets	-	-	177,945	177,945
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and central bank	-	-	702,699	702,699
Deposits and other liabilities due to customers	-	-	23,373,380	23,373,380
Subordinated debts	-	-	1,851,741	1,851,741
Other liabilities	-	-	175,544	175,544

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Overview of financial assets and financial liabilities by fair value (RSD thousand)

31 December 2016	At fair value	Held to maturity	Available for sale	Other amortized cost	Total carrying amount	Total fair value
Financial assets						
Cash, cash equivalents and balances with central bank	-	-	-	4,090,612	4,090,612	4,090,612
Financial assets initially carried at fair value through profit and loss	23,984	-	-	-	23,984	23,984
Financial assets available for sale (including pledged assets)	-	-	3,177,595	-	3,177,595	3,177,595
(including pledged assets)	-	1,443,325	-	-	1,443,325	1,443,325
Loans and receivables from banks and other financial institutions	-	-	-	1,018,760	1,018,760	1,018,760
Loans and receivables from customers	-	-	-	23,997,783	23,997,783	23,997,783
Other assets	-	-	-	152,600	152,600	152,600
Financial liabilities						
Deposits and other liabilities due to banks, other financial institutions and central bank	-	2,715,013	-	-	2,715,013	2,715,013
Deposits and other liabilities due customers	-	26,101,052	-	-	26,101,052	26,101,052
Other liabilities	-	-	-	243,695	243,695	243,695

28.2 Capital and capital adequacy

The goal of the Bank's management of its capital adequacy ratio is to provide maintenance of required capital level in order to support the Bank's development and growth of business activities.

The Bank's capital adequacy ratio represents the ratio between the Bank's capital and its risk assets. The Bank's risk assets are equal to the sum of market risk weighted assets and the capital requirement, related to foreign currency and operational risk multiplied by the reciprocal value of the capital adequacy ratio.

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The Bank's capital is the sum of the core capital and additional capital decreased for capital deductions, provided that the Bank is required to maintain its capital above the dinar equivalent value of EUR 10,000,000.

The Bank calculates capital requirement for credit risk by applying the standard approach, that is, by multiplying total credit risk weighted assets by 12%. Credit risk weighted assets represent the sum of gross balance sheet assets carrying amount decreased by allowances for impairment and required reserve for potential losses, and gross off-balance sheet carrying amount decreased by provisions and required reserve for potential losses, multiplied by conversion factors.

Capital requirement for foreign exchange risk is calculated by multiplying net open foreign currency position and the absolute value of net open position in gold by 12%. Total net open foreign currency position represents the absolute value of the higher of, total long or total short foreign currency position.

The Bank calculates capital requirement for operational risk by applying the basic indicator approach which is equal to three-year' average of exposure indicators multiplied with the capital requirement rate of 15%.

Taking into consideration that the Bank does not reach the prescribed limits, it is not obliged, apart from capital requirements for credit, foreign currency and operational risk, to calculate and ensure coverage for capital requirements in connection with other market risks arising from the items in the trading book.

As of 31 December 2016, capital and the capital adequacy ratio are calculated in accordance with NBS's regulations that comply with phased application of Basel standards.

The Bank's capital adequacy ratio as of 31 December 2016 amounts to 15,64% (31 December 2015: 15,79%) and therefore exceeds the 12% minimum prescribed by the NBS's Decision on Capital Adequacy of Banks.

Capital and capital adequacy structure as of 31 December 2016

No.	Item	(in thousand RSD)	
		31 December 2016	31 December 2015
1.	Core capital	3,699,262	2,974,277
	Nominal value of paid shares excluding		
1.1	preference cumulative shares	2,419,820	2,419,820
1.2	Share premium	1,827,323	1,827,323
1.3	Reserves from profit	1,174,276	1,359,742
1.4	Previous year loss	-	-
1.5	Current year loss	-	(185,467)
1.6	Intangible assets	(73,975)	(28,085)
1.7	Required reserves from profit for expected losses	(1,648,182)	(2,419,056)
2	Additional capital	275,613	269,970
	Nominal value of paid preference cumulative		
2.1	shares	1,340	1,340
2.2	Part of revaluation reserves	274,273	268,630
2.3	Subordinated debts	-	-
	Amount of capital which exceeds additional		
2.4	capital limit	-	-
3.	Items deductible from capital	-	6,229
3.3.1	Deduction from core capital	-	3,114.5
3.3.2	Deduction from additional capital	-	3,114.5
4.	Total core capital	3,699,262	2,971,163
5.	Total additional capital	275,613	266,855
6.	TOTAL CAPITAL	3,974,875	3,238,018
7.	Capital requirement for credit risk	2,770,902	2,181,749
8.	Capital requirement for foreign currency risk	10,853	12,199
9.	Capital requirement for market risk	267,649	267,191
10.	CAPITAL ADEQUACY RATIO	15.64%	15.79%

28.3 Assets acquired through collection of receivables

Bank in order to prevent losses caused by the property to be mortgaged Bank sold at very low cost participate in public sales, in order to prevent other participants to purchase property at a low price, with the aim of closing the bad debts in shorter deadlines and create opportunities to boost sales of both assets acquired in a subsequent period.

The Bank is actively engaged in the sale of property acquired through collection of receivables and so acquired the property can be maintained for a certain period only in cases when rapid sales led to significant losses.

Acquisition of property for the payment of disputed claims the Bank may be done, until:

- The ratio of liquid assets as a ratio of liquid assets (cash and deposits with other banks with residual maturity up to 30 days, the mandatory reserve, marketable precious metals and marketable government securities) to total assets is above 20%;
- The total amount of tangible assets acquired through collection of receivables in the balance of the Bank does not exceed 25% of the Bank's capital.

Acquired assets portfolio

Acquired assets	Acquisition date	Net carrying amount of acquired assets 31 December		Comment
		2015	2016	
Business premises, counter room, area 48 m ² , KO Šume, Ivanjica	26 December 2014	1,390	1,415	Business premises taken from enforcement debtor "Mercury international" a.d. Ivanjica.
Apartment in Filipa Filipovića 19, Čačak	1 September 2016	-	4,790	Apartment, area 87 m ² taken from execution debtor Nebojša Protic from Cacak
Total		1,390	6,205	

28.4 Liquidity risk

Liquidity risk is the risk of negative effects on the financial result and capital of the bank caused by the bank's inability to meet its obligations as they fall due.

The purpose of liquidity risk management is maintaining the Bank's liquid funds at the level that ensures that the Bank is able to settle its liabilities as they fall due.

The Bank manages its assets and liabilities in such a way that meets its due liabilities (liquidity) and to permanently meet all its liabilities (solvency).

Liquidity risk management is the responsibility of:

- The Board of Directors that adopts the Liquidity risk management policy and the Liquidity crisis plan;
- The Executive Board that implements adopted policy and establishes the Procedure for liquidity risk management;
- ALCO that monitors the Bank's exposure to liquidity risk and propose appropriate measures for managing liquidity risk;
- The Liquidity Committee establishes and monitors liquidity on a daily basis and takes appropriate measures for the prevention or elimination of causes of illiquidity;
- The Risk Management department and The Treasury department monitor and maintain liquidity on a daily basis.

Liquidity risk is measured in the Market, operational and other risk management department by calculating the Liquidity ratio and Acid-test liquidity ratio, additional liquidity ratios, Deposit concentration ratio, GAP analysis and stress tests.

Measuring exposure to liquidity risk is performed by observing wide and acid-test liquidity ratios prescribed by the NBS Decision on Risk Management by Banks and the Procedure for liquidity risk management. This ratio is the sum of first rate liquid receivables and second rate liquid receivables on the one hand, and the sum of avista liabilities or liabilities without contracted maturity and liabilities with contracted maturity within a month after the calculation date, on the other hand. The Acid-test liquidity ratio is calculated as the ratio between the sum of first rate liquid receivables, on the one hand, and sum of avista liabilities and liabilities without contracted maturity and liabilities with contracted maturity within a month after the calculation date, on the other hand.

Realized values of Liquidity ratio and Acid-test liquidity ratio

	Liquidity ratio	
	2016	2015
31 December	1.76	2.49
Average value	1.79	2.55
Maximal value	2.75	3.59
Minimal value	1.20	1.47

	Acid-test liquidity ratio	
	2016	2015
31 December	1.38	1.39
Average value	1.30	1.46
Maximal value	1.70	2.14
Minimal value	0.90	0.87

The Bank's liquidity was monitored also by liquid assets ratio as the ratio of liquid assets to total assets.

Realized values of Liquid assets ratio

	2016	2015
31 December	24.46%	34.58%
Average value	27.62%	28.78%
Maximal value	31.23%	36.42%
Minimal value	22.07%	24.41%

During 2016 the Bank also monitored liquidity risk through additional liquidity ratios prescribed by the Procedure for liquidity risk management and according to covenants in agreements that the Bank signed with international financial institutions. These ratios ranged within the limits prescribed by the procedure and the limits agreed with international financial institutions.

For monitoring and management of liquidity risk is crucial to monitor compliance maturity of assets and liabilities. The compatibility and controlled mismatching of the maturities of assets and liabilities is fundamental to the Bank's management. It is unusual for banks ever to be completely matched since business transactions are often carried out for indefinite periods and are of different types. Unreconciled position potentially increases profitability, but also increases the risk of losses.

The following table shows assets and liabilities of the Bank by maturities from the balance sheet date to contracted maturities:

	(in thousand RSD)					
31 December 2016	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 year	Total
Cash, cash equivalents and balances with central bank	4,090,612	-	-	-	-	4,090,612
Financial assets at fair value through profit and loss held for trading	23,984	-	-	-	-	23,984
Financial assets available for sale	539,611	50,000	683,802	1,464,016	440,166	3,177,595
Financial assets held to maturity (including pledged funds)	612,207	-	373,285	457,833	-	1,443,325
Loans and receivables from banks and other financial institutions	901,625	117,135	-	-	-	1,018,760
Loans and receivables from customers	1,761,787	487,041	3,899,596	12,008,715	5,840,644	23,997,783
Other assets	36,497	-	-	-	116,103	152,600
Total financial assets	7,966,323	654,176	4,956,683	13,930,564	6,396,913	33,904,659
Deposits and other liabilities due to banks, other financial institutions and central bank	1,955,102	21,000	121,549	617,362	-	2,715,013
Deposits and other liabilities due to customers	10,683,088	1,764,922	5,625,087	4,458,400	3,569,555	26,101,052
Subordinated debts	-	-	-	-	-	-
Other liabilities	75,477	-	-	-	168,218	243,695
Total financial liabilities	12,713,667	1,785,922	5,746,636	5,075,762	3,737,773	29,059,760
Maturity match / gap	(4,747,344)	(1,131,746)	(789,953)	8,854,802	2,659,140	4,844,899

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(in thousand RSD)

31 December 2015	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash, cash equivalents and balances with central bank	4,081,407	-	-	-	-	4,081,407
Financial assets at fair value through profit and loss held for trading (including pledged funds)	26,208	113,759	381,067	941	-	521,975
Financial assets available for sale (including pledged funds)	-	-	-	517,187	85,316	602,503
Financial assets held to maturity	599,355	598,345	1,815,682	435,806	-	3,449,188
Loans and receivables from banks and other financial institutions	794,422	1,786,688	476,125	-	-	3,057,235
Loans and receivables from customers	2,026,569	439,051	2,685,477	9,612,158	4,432,228	19,195,483
Other assets	31,518	-	-	-	146,427	177,945
Total financial assets	7,559,479	2,937,843	5,358,351	10,566,092	4,663,971	31,085,736
Deposits and other liabilities due to banks, other financial institutions and central bank	99,753	81,697	521,249	-	-	702,699
Deposits and other liabilities due to customers	8,764,931	2,382,374	3,603,170	4,669,572	3,953,333	23,373,380
Subordinated debts	-	1,851,741	-	-	-	1,851,741
Other liabilities	1,170	-	-	-	174,374	175,544
Total financial liabilities	8,865,854	4,315,812	4,124,419	4,669,572	4,127,707	26,103,364
Maturity match / gap	(1,306,375)	(1,377,969)	1,233,932	5,896,520	536,264	4,982,372

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28.5 Market risk (interest rate risk, foreign currency risk and risk of change in the price of securities)

28.5.1 Interest rate risk

Interest rate risk is risk of negative effects on financial result and capital of the Bank caused by changes in interest rates. The Bank is exposed to interest rate risk based on items in the banking book.

The objective of managing interest rate risk is to minimize losses arising from changes in market interest rates.

Interest rate risk management is responsibility of:

- The Board of Directors that adopts the Interest rate risk management policy;
- The Executive Board that implements adopted Policy and establishes the Procedure for interest rate risk management
- ALCO monitors the Bank's exposure to interest rate risk and proposes appropriate measures for risk management;
- Risk management department implements policy and procedures and reports to Management regarding risk exposure.
- The Offering and Marketing department that daily monitors market interest rates and proposes interest rates for the Bank's products.

Interest rate risk is measured in Risk management department through measurements of interest rate revaluation risk (repricing risk), base interest rate risk, yield curve risk and option risk.

The following table gives overview of interest-bearing assets and liabilities by maturities for the items with fixed interest rate and/or by the period of repricing for the items with variable interest rate.

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31 December 2016	(in thousand RSD)						Total
	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-bearing interest	
Cash, cash equivalents and balances with central bank	-	-	-	-	-	4,090,612	4,090,612
Financial assets at fair value through profit and loss held for trading	-	-	-	-	-	23,984	23,984
Financial assets available for sale	383,421	51,598	698,415	1,482,656	457,746	103,759	3,177,595
Financial assets held to maturity (including pledged funds)	598,823	-	377,133	467,369	-	-	1,443,325
Loans and receivables from banks and other financial institutions	-	117,135	-	-	-	901,625	1,018,760
Loans and receivables from customers	10,902,620	2,002,752	2,531,471	4,831,567	2,661,414	1,067,959	23,997,783
Other assets	-	-	-	-	-	152,600	152,600
Total financial assets	11,884,864	2,171,485	3,607,019	6,781,592	3,119,160	6,340,539	33,904,659
Deposits and other liabilities due to banks, other financial institutions and central bank	1,561,827	21,000	120,000	-	-	1,012,186	2,715,013
Deposits and other liabilities due to customers	5,592,860	3,669,402	7,144,545	2,085,342	18,521	7,590,382	26,101,052
Subordinated debts	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	243,695	243,695
Total financial liabilities	7,154,687	3,690,402	7,264,545	2,085,342	18,521	8,846,263	29,059,760

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	(in thousand RSD)						
31 December 2015	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-bearing interest	Total
Cash, cash equivalents and balances with central bank	350,000	-	-	-	-	3,731,407	4,08,407
Financial assets at fair value through profit and loss held for trading (including pledged financial assets)	-	-	494,826	-	-	27,149	521,975
Financial assets available for sale (including pledged financial assets)	-	-	-	517,256	61,993	23,254	602,503
Financial assets held to maturity	600,000	600,000	1,811,242	437,324	-	622	3,449,188
Loans and receivables from banks and other financial institutions	1,787,144	476,125	-	-	-	793,966	3,057,235
Loans and receivables from customers	9,267,392	1,291,144	1,820,031	3,097,313	1,354,789	2,364,814	19,195,483
Other assets	-	-	-	-	-	177,945	177,945
Total financial assets	12,004,536	2,367,269	4,126,099	4,051,893	1,416,782	7,119,157	31,085,736
Deposits and other liabilities due to banks, other financial institutions and central bank	309,031	-	299,721	-	-	93,947	702,699
Deposits and other liabilities due to customers	8,432,734	3,001,035	5,894,051	2,068,245	770	3,976,545	23,373,380
Subordinated debts	-	1,851,741	-	-	-	-	1,851,741
Other liabilities	-	-	-	-	-	175,544	175,544
Total financial liabilities	8,741,765	4,852,776	6,193,772	2,068,245	770	4,246,036	26,103,364

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The following table shows the interest sensitivity. Sensitivity measures the impact of a parallel shift in the yield curve by 200 bp on capital and income of the Bank.

(in thousand RSD)

	2016		2015	
	Effect on capital	Effect on income	Effect on capital	Effect on income
31 December	5,077	57,684	46,798	53,998
Average value	45,479	54,636	84,220	60,891
Maximal value	109,673	58,070	176,447	65,136
Minimal value	774	52,075	15,730	53,998

28.5.2 Foreign currency risk

Foreign currency risk is the risk of negative effects on financial result and capital of the bank caused by changes in foreign-exchange rates. The Bank is exposed to foreign currency risk based on items in the banking book and trading book.

The aim of foreign currency risk management is to minimize losses arising from changes in foreign-exchange rates.

Foreign currency risk management is the responsibility of:

- The Board of Directors that adopts the Policy for market risk management;
- The Executive Board that implements the adopted policy and establishes the Procedure for foreign currency risk management;
- ALCO that monitors the Bank's exposure to foreign currency risk and proposes appropriate measures for risk management;
- The Risk management department and Treasury department monitor on daily basis and manage currency structure of asset sources and placements

Foreign currency risk is measured in the Risk management department on the basis of the Foreign currency risk ratio, as a ratio of net open foreign currency position to capital, pursuant to the Decision on Capital Adequacy of Banks and Decision on Reporting Requirements for Banks by Banks issued by NBS and the Procedure of foreign currency risk management.

Realized values of foreign currency risk ratio

	2016	2015
31 December	2.28%	3.27%
Average value	3.07%	5.69%
Maximal value	11.90%	18.38%
Minimal value	0.30%	0.60%

Foreign currency risk, measured by foreign currency risk ratio, in 2016 was mostly in the low risk category. Average value of foreign currency risk ratio was 3.07%.

The following table presents a breakdown of open foreign currency positions by currencies as of 31 December

Analysis of assets and liabilities by currencies

31 December 2016	EUR	USD	CHF	Other	Total	(in thousand RSD)	
						RSD	Total
Cash, cash equivalents and balances with central bank	2,045,225	74,006	18,469	15,843	2,153,543	1,937,069	4,090,612
Financial assets at fair value through profit and loss held for trading	-	-	-	-	-	23,984	23,984
Financial assets available for sale	1,021,063	-	-	-	1,021,063	2,156,532	3,177,595
Financial assets held to maturity (including pledged financial assets)	184,621	-	-	-	184,621	1,258,704	1,443,325
Loans and receivables from banks and other financial institutions	449,269	180,592	173,238	90,202	893,301	125,459	1,018,760
Loans and receivables from customers	17,779,613	1,175	-	-	17,780,788	6,216,995	23,997,783
Other assets	29,877	383	10	28,283	58,553	94,047	152,600
Total financial assets	21,509,668	256,156	191,717	134,328	22,091,869	11,812,790	33,904,659
Deposits and other liabilities due to banks, other financial institutions and central bank	2,024,912	-	-	30,761	2,055,673	659,340	2,715,013

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Deposits and other liabilities due to customers	19,365,327	260,552	214,152	77,412	19,917,443	6,183,609	26,101,052
Subordinated debts	-	-	-	-	-	-	-
Other liabilities	57,641	10	4	17	57,672	186,023	243,695
Total financial liabilities	21,447,880	260,562	214,156	108,190	22,030,788	7,028,972	29,059,760
Net position	61,788	(4,406)	(22,439)	26,138	61,081	4,783,818	4,844,899

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31 December 2015	EUR	USD	CHF	Other	Total	(in thousand RSD)	
						RSD	Total
Cash, cash equivalents and balances with central bank	2,126,234	55,806	59,080	12,664	2,253,784	1,827,623	4,081,407
Financial assets at fair value through profit and loss held for trading (including pledged financial assets)	494,826	-	-	-	494,826	27,149	521,975
Financial assets available for sale (including pledged financial assets)	510,447	-	-	-	510,447	92,056	602,503
Financial assets held to maturity	421,386	-	-	-	421,386	3,027,802	3,449,188
Loans and receivables from banks and other financial institutions	1,452,262	153,990	105,329	43,670	1,755,251	1,301,984	3,057,235
Loans and receivables from customers	15,452,385	-	-	-	15,452,385	3,743,098	19,195,483
Other assets	15,498	504	38	53	16,093	161,852	177,945
Total financial assets	20,473,038	210,300	164,447	56,387	20,904,172	10,181,564	31,085,736
Deposits and other liabilities due to banks, other financial institutions and central bank	467,417	4,131	-	-	471,548	231,151	702,699
Deposits and other liabilities due to customers	18,217,121	203,806	160,246	43,617	18,624,790	4,748,590	23,373,380
Subordinated debts	1,851,741	-	-	-	1,851,741	-	1,851,741
Other liabilities	27,882	35	-	20	27,937	147,607	175,544
Total financial liabilities	20,564,161	207,972	160,246	43,637	20,976,016	5,127,348	26,103,364
Net position	(91,123)	2,328	4,201	12,750	(71,844)	5,054,216	4,982,372

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Changes in exchange rates by 15% on net foreign currency position as of 31 December 2016 and 31 December 2015 are presented as follows. Items with currency clause have been presented within EUR position for placements in RSD and liabilities indexed in euros, that is within USD position for placements in dinars and liabilities indexed in dollars.

(in thousand RSD)									
31 December	EUR	EUR	EUR	USD	USD	USD	CHF	CHF	CHF
2016	EUR	+15%	-15%		+15%	-15%	CHF	+15%	-15%
Financial assets	21,509,66		18,283,21						
	8	24,736,119	8	256,156	294,579	217,733	191,717	220,475	162,960
Financial liabilities	21,447,88	24,665,06	18,230,69						
	0	2	8	260,562	299,646	221,478	214,156	246,279	182,033
Net position							(22,439		
	61,788	71,057	52,520	(4,406)	(5,067)	(3,745))	(25,804)	(19,073)
31 December									
2015	EUR	EUR	EUR	USD	USD	USD	CHF	CHF	CHF
		+15%	-15%		+15%	-15%		+15%	-15%
Financial assets	20,476,330	23,547,780	17,404,881	307,223	353,306	261,990	164,357	165,183	139,703
Financial liabilities	20,900,379	24,035,436	17,765,321	207,972	239,168	176,776	160,246	184,283	136,209
Net position	(424,049)	(487,656)	(360,440)	99,251	114,138	85,214	4,111	(19,100)	3,494

28.5.3. Risk of changes in securities prices

Risk of changes in securities prices is the risk of negative effects on the Bank's financial result due to changes in price of the securities in the Bank's portfolio.

The aim of risk of changes in securities prices management is to minimize negative effects arising from changes in prices of securities in the Bank's portfolio.

Risk of changes in securities prices management is the responsibility of:

- Board of Directors, responsible for adopting the Securities portfolio management policy and Market risk management policy;
- The Executive Board, which is responsible for implementation of the adopted policy;
- ALCO, which monitors the Bank's exposure to risk of changes in securities prices and proposing appropriate risk management measures and
- The Treasury department responsible for managing securities portfolio on a daily basis and the Risk management department monitoring trends of positions from the trading book and reports to the Bank's management.

The Risk management department, on the basis of relevant sources of market information, actively monitors values of securities owned by the Bank and controls their compliance with internally prescribed limits

Value of the Bank's portfolio

	(In thousand RSD)	
	Market value 2016	Market value 2015
Pledged financial assets		
Treasury bills of the Republic of Serbia	-	358,154
Bonds of the Republic of Serbia	90,000	226,680
	90,000	584,834
Financial assets at FVTPL held for trading		
Shares-banks	519	8,344
Shares-other entities	23,465	18,805
Bonds of the Republic of Serbia	-	268,146
	23,984	295,295
Financial assets available for sale		
Bills of the Republic of Serbia available for sale in RSD	207,069	-
Bills of the Republic of Serbia available for sale in foreign currency	936,810	152,293
Bonds of the Republic of Serbia available for sale in RSD	1,947,447	-
Municipal bonds (reduced for accumulated depreciation)	86,269	92,056
	3,177,595	244,349
Financial assets held-to-maturity		
In RSD	1,168,704	3,027,802
Bills of the Republic of Serbia	598,823	2,772,295
Bonds of the Republic of Serbia	569,881	255,507
In foreign currency	184,621	421,386
Bills of the Republic of Serbia	-	241,089
Bonds of the Republic of Serbia	184,621	180,297
	1,353,325	3,449,188
Total	4,644,904	4,573,666

28.6. Operational risk

Operational risk is the risk of negative effects on financial result and the capital of the Bank caused by omissions in employee work, inadequate internal procedures and processes, inadequate information and other systems management as well as by unforeseeable external events. Operational risk excludes reputational and strategic risk but includes legal risk.

The following bodies are responsible for managing operational risk in the Bank:

- Board of Directors is responsible for adopting Operational risk management policy;
- The Executive Board is responsible for implementation of the adopted policy and establishing the Operational risk management procedure;
- ALCO is responsible for monitoring Bank's exposure to operational risk and proposing appropriate risk management measures;

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- The Risk management department is responsible for monitoring and collecting data on operational risk events on a daily basis and reporting to the Bank's management on exposure to this risk.
- Exposure to operational risk is measured by the Risk management department, through operational risk identification, database registering and analysis, in accordance with Operational risk management procedure.

Exposure to operational risk is measured by monitoring number of events of the same type during a calendar year and the financial impact of an individual event

Operational risk exposure

	<u>2016</u>	<u>2015</u>
Number of events	134	66
Gross loss (EUR)	167,159	17,746
Net loss (EUR)	<u>978</u>	<u>603</u>

During 2016 it was recorded 134 operational risk events, and 68 events more than in 2015. Most operational risk events related to the treasury deficits or surpluses, and successfully rescued (80 events of missing cash, 32 events of cash surplus). The remaining 22 operational risk events related to cases of external fraud, errors in the transmission of orders, incomplete documentation, failures in dealing with applications.

The total amount of gross loss for all operational risk events in the period from 01 January 2016 to 31 December 2016. amounted to EUR 167,159, a net loss of all reported events of operational risk amounted consists of EUR 978. Gross loss that is related to the cash deficits amounted to EUR 45,935.29, the gross loss to the cash surplus amounted to EUR 14,189.95, a gross loss of other operational risk events EUR 107,033.76. Net loss on cash surplus and missing amounted to zero (all losses are covered), and the net loss on other operational risk events was 978 EUR.

In relation to the business line during from 1 January 2016 to 31 December 2016, 126 reported operational risk events were related to the accounts and payments, 3 events on the financing of the economy, 3 in dealings with citizens and 2 events on commercial banking.

In relation to the type of event, 120 operational risk events were related to the execution, delivery and management processes, 9 events on clients, products and business practices, 4 in the case of external fraud and activities and 1 event at the expense of the fixed assets.

According to the criterion of the number of events of the same kind in a year, the event of cash shortfall was in the category of critical risk, and the event of cash surplus was in the category of medium risk.

The Bank performs risk assessment with the help of third parties, on the basis of the contract concluded with these persons which have clearly defined rights and obligations of the parties.

When introducing new products, processes and systems or new business activities the Bank performs assessment and identification of operational risk.

28.7. Risk of inadequate information system management

The aim of risk management of information system inadequacy is aimed at minimizing the negative effects that can occur due to the Bank's information system exposure to public networks, malicious internal attacks, hardware failures, sabotage and maintenance of these exposures within prescribed limits. In compliance with the National Bank of Serbia Decision on Minimal Standards for Management of Information System of Financial Institutions, the Bank has performed a series of activities for becoming fully compliant with the Decision.

Accordingly, the Bank implemented the Strategy on information system development, Business continuity strategy, Exit strategies for outsourced activities and Information system safety policy. Also, the set of quality procedures and instructions in compliance with NBS Decision on minimal standards for management of information system of financial institutions has been adopted.

The Bank owns a certificate which states that it has complied its business activities i.e. information security management system, with requests of standard ISO/IEC 27001:2005. The process of adjustment with the requests has initiated not only procedural improvements, but also improvements of business processes supported by the Bank's information system.

The Bank's information system has functionalities to support operating processes, provide prompt, correct and complete information for decision making and risk management.

The Bank continuously works on improvements of information system through continuous updates of Strategy on information system development.

In order to provide quality management of information system, the Bank established Committee for Information technologies.

A framework for information system management consists of the methodology for project management, as well as reporting on functionalities and information system security.

The following bodies are responsible for managing risk of inadequate information system management in the Bank:

- The Board of Directors that adopts the Information system development strategy, Information system safety policy and Business continuity strategy;
- The Executive Board that implements adopted strategies and policies and defines procedures and instructions;
- Information System Committee that monitors functioning and development of information system, makes decision and suggest appropriate measures to the Executive Board;
- Information security department that plans, suggests and execute all the activities related to information system and reports to Information System Committee;
- Security department that identifies, assesses, monitors up and controls IT risk by safety control within Information technologies department and reports to Information System Committee.

28.8. Exposure risk

The objective of exposure risk management is to minimize losses against exposure to one party, a group of related parties and parties related to the Bank and to retain these exposures at the acceptable level.

The following bodies in the Bank are responsible for managing exposure risk:

- The Board of Directors that makes decisions on the Bank's exposure to one person or a group of related parties in the amount exceeding 10% of the Bank's capital, as well as decisions on the Bank's exposure to parties related to the Bank;
- The Executive Board that establishes the Procedure for exposure risk management and makes decisions for the Bank's exposure to one party or a group of related parties up to 10% of the Bank's capital, as well as decisions on the Bank's exposure to parties related to the Bank pursuant to the Decision by the Board of Directors on authorizing Executive Board to conclude legal arrangements with related parties;
- ALCO that monitors the Bank's exposure to one person, a group of related parties and persons related to the Bank and proposes measures for managing exposure risk and
- Market, operational and other risk management department that monitors on a daily basis the Bank's exposure to one party, a group of related parties and parties related to the Bank.

Exposure risk is measured by the Risk management department on the basis of reports preparation prescribed by relevant National Bank of Serbia decisions and the Bank's procedures.

Net exposure to related parties and large exposures

	(In thousand RSD)			
	2016		2015	
	Exposure amount	Share in capital	Exposure amount	Share in capital
Related parties	434,398	10.93%	673,086	20.79%
Large exposures	712,488	17.92%	2,396,583	74.01%

During 2016 exposures to one party/group of related parties and parties related to the bank were within the prescribed limits. For all of the Bank's exposures, that were in medium risk category, that exceeded 10% of the Bank's capital, prior approval of the Board of Directors was provided.

The Bank monitors Concentration ratio of 20 largest gross exposures. The concentration ratio for 20 largest gross exposures represents the ratio between balance sheet assets and off-balance sheet items to be classified of 20 largest economic groups, except banks, and the total assets to be classified, decreased by assets, which represent exposure to other banks. Bank's aim is to maintain this ratio at the level of up to 30%.

As of 31 December 2016 balance sheet assets and off-balance sheet items to be classified of the 20 largest economic groups, except Banks, amounted RSD 7,777,089 thousand. Total balance sheet assets and off-balance sheet items to be classified, decreased by deposits at banks, amounted RSD 36,685,415 thousand. Concentration ratio of 20 largest gross exposures as of 31 December 2016 amounted 21.20%.

28.9. Risk of investment in other non-financial legal entities and fixed assets

Investment in other legal entities refers to the investment by which the Bank acquires a stake or shares of non-financial legal entities. Such investment does not include acquisition of shares with intention to sell them in the period of six months after the date of acquisition.

The following bodies are responsible for investment risk management:

- The Board of Directors that makes decisions on individual investments in fixed assets in the amount exceeding EUR 250,000 translated in RSD;
- The Executive Board that has adopted the Procedure for investment risk management implements adopted procedures and makes decisions on investments into fixed assets up to EUR 250,000 translated in RSD.
- ALCO monitors exposure risk of the Bank's investments and proposes certain measures for managing this risk and
- IT Department, Security department and the Department of technical operations that are in charge of fixed assets procurement.

Risk measurement is within the competence of the Plan and analysis department and the Market, operational and other risk management department.

Investments into non-financial entities and fixed assets in relation to capital

	31 December 2016	31 December 2015
Investments in non-financial entities	0,00%	0.47%
Total investments in non-financial entities and fixed assets	23.77%	23.90%

During 2016 the Bank's investment risk level was within the low risk category.

28.10. Risks relating the country of origin of the Bank's counterparty

Country risk is the risk relating to the country of origin of the Bank's debtor, that is the risk of the possibility that negative effects may impact the financial result and the capital of the Bank due to the inability of the Bank to collect receivables due to political, economic, social or other circumstances in the country of its debtor's origin.

The following bodies in the Bank are responsible for country risk management:

- The Board of Directors that adopts the Policy for country risk management;
- The Executive Board that implements the adopted Policy and establishes the Procedure for country risk management;
- ALCO that monitors the exposure to country risk and proposes certain measures for risk management and
- The Payment operations department that performs accounts opening and closure accounts and executes transfers of funds with foreign correspondent banks.

Country risk measurement is performed in the Risk management department, where country risk is identified on a monthly basis, when preparing monthly risk report.

The Bank establishes a system for classifying the countries according to the level of risk to the country and has opted for a system of risk classification by categories assigned by international credit agencies (Moody's, Standard & Poors and Fitch).

During 2016, the Bank had deposited funds in the accounts of banks operating in countries that assessment pursuant to international agencies for credit rating procedure and the Bank are classified as low-risk and medium-risk countries.

Countries in which the Bank has deposited funds	
Country	Category of risk
Germany	Low
USA	Low
Macedonia	Medium
Turkey	Medium

Total exposure to TÜRKIYE HALK BANKASI A.Ş as at 31 December 2016 amounted to RSD 131,202 thousand or 3.30% capital of Bank and referred to the given deposits.

28.11. Compliance risk and risk management activities on anti-money laundering and terrorism financing

Business operations compliance refers to performing bank activities in accordance with legislation, regulations, standards, procedures, business policy and other internal regulations. This risk occurs as a consequence of an inadequate compliance of bank's activity with aforementioned.

The objective of compliance risk management is to avoid sanctions of regulatory authorities, financial losses, loss of business reputation and clients' trust.

The following bodies in the Bank are responsible for compliance risk management:

- The Board of Directors that adopts the Policy for compliance risk management;
- The Executive Board that implements the adopted policy and determines the Procedure on compliance risk management;
- Department for business operations compliance and money laundering prevention that identifies, estimates and monitors the business compliance risk.

The Department for business operations compliance and anti-money laundering has identified and estimated compliance risk in 2016 by performing adequate control procedures provided by Work plan in a way prescribed by business operations compliance risk management procedure.

Report on the compliance of controls and risk management activities of prevention of money laundering and financing of terrorism

The report contains information about controls, monitoring activities, identifying compliance risks and prevent money laundering and terrorist financing.

1. In accordance with the Operational annual plan of work, employees of the Service Compliance and Anti-Money Laundering based themselves on a freely chosen pattern from 1 January to 31 December 2016 and performed 15 controls in connection with the implementation of legal regulations and internal rules in different organizational units of the Bank.

The controls are carried out in the Department of Technical Affairs, Department of domestic and foreign currency payments, the Department for the development of business networks, Department of Trade Securities and branches in Krusevac, Belgrade, New Belgrade, Arandjelovac, New Mill-u, Novi Sad, Nis, Uzice, Valjevo and Cacak.

Recommendations and deadlines for elimination were given, because of the control of the risks. The proposed recommendations were implemented within the agreed deadlines.

Assessment of the findings of controls performed in the aforementioned organizational units is *Acceptable with certain corrections* and *In compliance*, as controlled activities are performed in accordance with the applicable regulations and procedures of the Bank.

2. The service is preventive work in identifying and managing compliance risk, monitoring newspapers and changes in legislation, notification to the competent leadership on important newspapers and the obligation of harmonization of procedures and guidelines with the legislation and control the implementation of legislation in the quality management system documentation.

From 1 January to 31 December 2016, the heads of the competent organizational units were informed about the news and changes in 55 items of legislation. Regulations are mainly related to the amendments to Decision on classification of balance sheet assets and off-balance sheet items, changes and amendments to the Decision on reporting banks and amendments to the Decision on Bank Risk Management, Decision on Capital Adequacy, Decision on reporting on capital adequacy of banks, Decision on publishing data and information Bank's decision on the bank's liquidity risk management regulations in the area of payments, the regulations pertaining to the tax system and legal regulations.

At the request of the Department for risk management, control was performed on the publication of the report data and information of the Bank as at 30 June 2016 by which it was stated that the report was prepared in accordance with the Decision of NBS and contains all the required elements. During 2016, the inspection was made of the report on the process of internal capital adequacy assessment for 2015 (Report on ICAAP) and they concluded that the report is prepared in accordance with the Decision of NBS and contains all the required elements.

3 In order to recognize and detect suspicious transactions, employees of the Department carry out the daily activities of control, analysis and reporting of cash transactions in the amount of EUR 15,000 or more in RSD equivalent at the average exchange rate of the National Bank of Serbia, Administration for prevention of money laundering. In the period of 01 January to 31 December 2016 the Directorate for the SPN reported 2,666 regular cash transactions.

Special attention was paid to the employee monitoring, analysing and detecting suspicious transactions of clients of the Bank. In the reporting period employees has identified and reported to the Administration for SPN two suspicious transactions. One of them was legal entity.

4. Following reports were formed for the competent authorities of the Bank and regulatory bodies, in accordance with external and internal regulations in the reporting period:

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- Annual report on the performed analysis and assessment of exposure to the risk of money laundering and financing of terrorism,
- Annual report on the controls carried out business operations comply with identified and assessed the main risks and the compliance of the risk management plan,
- Annual report on performed internal controls and measures taken in the field of prevention money laundering and financing of terrorism and
- Quarter report on the controls carried out and the compliance of the bank's activities in the field of combating money laundering and terrorist financing.

The Annual plan and program of professional education and training of employees for the implementation of regulations and procedures related to the field of prevention of money laundering and terrorist financing was made in accordance with regulations.

During 2016, The trainings in the area of prevention of money laundering and financing of terrorism and verification of knowledge of managers of organizational units of the Bank who are in direct contact with customers were done.

28.12. Environmental and social risk

The objective of Environmental and social risk management is to identify, assess and control risks that may jeopardize the environment and it is performed according to the Environmental and social risk management policy and Procedure of management of social and environmental risk.

The following bodies are responsible for environmental and social risk management:

- The Board of Directors, that implements and at least annually reviews the Environmental and social risk management policy and decides on required changes;
- The Executive Board determines and implements the Procedure for managing social and environmental risk;
- The Credit risk management department which makes decisions on granting placements concerning environment, pursuant available information and Solvency assessment department opinion;
- The Credit risk management department, that evaluates impact of business activities and object of funding during client's creditworthiness analysis;
- Portfolio management and reporting department that monitors placements by activities, industrial sectors and environmental and social risk through preparing and analyzing reports, which are delivered to EBRD and IFC Environment department;

When processing individual clients' applications, environmental and social risk is classified for the client's primary activity and the activity which is subject to financing.

Environmental and social risk categories are as follows:

- High – Exclusion List
- High – Category A,
- High,
- Medium
- Low.

If the activity which is subject to financing is included in the Exclusion list, the application will be rejected. If the activity is classified in high risk category A, the assessment of impact on environment be provided from the client.

Credit risk management department, when reviewing application with the decision draft for the relevant credit committee, will verify classification of the activity by the extent of environmental and social risk and data regarding the environmental and social impact by the client and activity subject to financing.

Loan agreements and agreements on other exposures contain environmental and social provisions that should be obeyed by both the client and the Bank.

The Bank will monitor the balance of exposures by activities, industries and environmental and social risk categories through the reports and their analysis.

Overview of corporate placements by environmental and social risk categories (RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance sheet)		
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	Increase/decrease
High – Exclusion List	-	-	-	-	-
High – Category A	7	7	112,766	188,990	(76,224)
High	204	229	6,576,746	6,324,463	252,283
Medium	956	1,074	10,979,399	9,022,943	1,956,456
Low	1,923	2,224	12,053,862	12,811,870	(758,008)
Total:	3,090	3,534	29,722,773	28,348,266	1,374,507

Placements classified in the High risk category – Exclusion list do not exist at 31 December 2016, and also was not at 31 December 2015.

29. COMPLIANCE OF BUSINESS ACTIVITIES WITH THE NBS REGULATIONS

Indicator	Limits prescribed by NBS	Realized values as of 31 December 2016	Realized values as of 31 December 2015
Capital	Min 10,000,000 €	32,192,443 €	26,622,723 €
Capital adequacy ratio	min 12%	15.64%	15.79%
Foreign currency risk ratio	max 20%	2.28%	3.14%
Liquidity ratio	Min 1	1.76	2.49
Acid-test liquidity ratio	Min 0.7	1.38	1.39
Total related party exposure	max 25%	10.93%	16.22%
Exposure to one party or group of related parties	max 25%	11.13%	20.79%
Total large exposures	max 400%	17.92%	74.01%
Investments in non-financial entity	max 10%	0%	3.27%
Total investments in non-financial entities and fixed assets	max 60%	23.77%	23.90%

30. RECONCILIATION OF OBLIGATIONS AND RECEIVABLES

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Compliance to the receivables of Bank on the date 31 December 2016 in percentages:

- Agreed 95,00%
- Inconsistent 5.00%.

All obligations of the Bank were agreed.

31. EVENTS AFTER THE BALANCE SHEET DATE

After the end of the financial year there were no events that have a material impact on the financial statements for the period ending 31 December 2016.

National Bank of Serbia on the basis of Decision G.no.963 from 1 February 2017 started control operations on 20 February 2017 in the part pertaining to credit risk management and control of the capital adequacy ratio as at 31 December 2016, as well as control of bank management.

32. LIGATION

At 31 December 2016 against the bank is managed 17 cases in which the respondent bank totaling RSD 25,049 thousand. The Bank does not expect a negative outcome of the proceeding and consequently provisions are not formed for adverse outcome of legal disputes.

33. EXCHANGE RATE

The middle exchange rates, determined for foreign currencies in the Interbank Exchange Market, applied in translation of balance sheet items denominated in foreign currencies into dinars, for certain major currencies were as follows:

	31 December 2016	31 December 2015
USD	117,14	111,25
EUR	123,47	121,63
CHF	114,85	112,52

In Belgrade,
28 February 2017

Vesna Petrović

Person responsible for
preparing notes

Erturk Sumer

Member of the Executive
Board

Kenan Bozkurt

Chairman of the
Executive Board


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ANNUAL OPERATING REPORT FOR 2016

Belgrade, February 2017

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I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

HALKBANK a.d. Belgrade operates in the Republic of Serbia since 2015 when Türkiye Halk Bankası A.S. has become a major owner of Cacanska banka which has been operating since 1956.

The Bank is registered in the Business Registers Agency of the Republic of Serbia under the number BD 54244 dated 13 September 2005.

Under the name of Halkbank a.d. Beograd Bank has been operating since 22 October 2015 when the change has been registered in the Business Registers Agency BD 89155/2015.

2. ORGANISATION OF OPERATIONS

HALKBANK a.d. Belgrade is a universal bank which provides all banking services for entrepreneurs and retail clients. The Bank encourages and finances the growth and development of the domestic economy, but is also a safe place for saving deposits for all clients. The primary goal is to create products that will completely satisfy all customer's expectations.

The Bank is registered in the Republic of Serbia to provide payment operations and credit and deposit operations in the country and abroad and it operates in compliance with the Law on Banks.

HALKBANK a.d. Belgrade successfully spreads business network and client base. Today the Bank offers services and product through business network of 20 branches, 8 sub-branches and 4 cash desks. As at 31 December 2016 the Bank was comprised of 5 branches in Belgrade, 2 branches in Čačak and 13 branches located in the towns of Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo and Novi Pazar and 8 sub-branches in Čačak, Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac and Mladenovac.

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3. BASIC OPERATING RATIOS

Income Statement (in EUR 000)	31 December 2015	31 December 2016	Plan for 2016
Net interest income	1,179,131	1,344,962	1,312,500
Net fee and commission income	575,732	576,556	600,000
Profit / Loss before taxation	(187,811)	136,080	13,375
Balance Sheet (in EUR 000)	31 December 2015	31 December 2016	Plan for 2016
Loans and advances to customers	19,099,192	23,962,060	24,375,000
Customers deposits	15,494,728	19,226,690	18,375,000
Equity	5,739,809	5,883,585	5,953,500
Balance sheet assets	31,934,812	34,985,811	36,963,625
Off-balance sheet items	52,289,482	56,934,323	54,060,000
Basic financial ratios	31 December 2015	31 December 2016	Plan for 2016
Operating expenses / Net interest, fee and commission income	66.77%	74.21%	75.00%
Capital adequacy	15.79%	15.64%	17.83%
Number of employees	31 December 2015	31 December 2016	Plan for 2016
	377	411	450
Exchange rate	31 December 2015	31 December 2016	Plan for 2016
RSD / EUR	121.6261	123.4723	125
Liquidity ratios	31 December 2015	31 December 2016	Plan for 2016.
Average liquidity ratio	2.55 _{1.70}		1.50
Average liquid asset ratio	28.78%	27.62%	24.00%

HALKBANK a.d. Belgrade made a positive operating result in the 2016 amounting to RSD 136,080 thousand.

Balance sheet assets amounted to RSD 34,985,811 thousand as at 31 December 2016, which is increase of 9.55% compared to the end of 2015.

Off-balance sheet assets as at 31 December 2016 came to RSD 56,934,323 thousand, which is increase of 8.88% compared to the end of 2015.

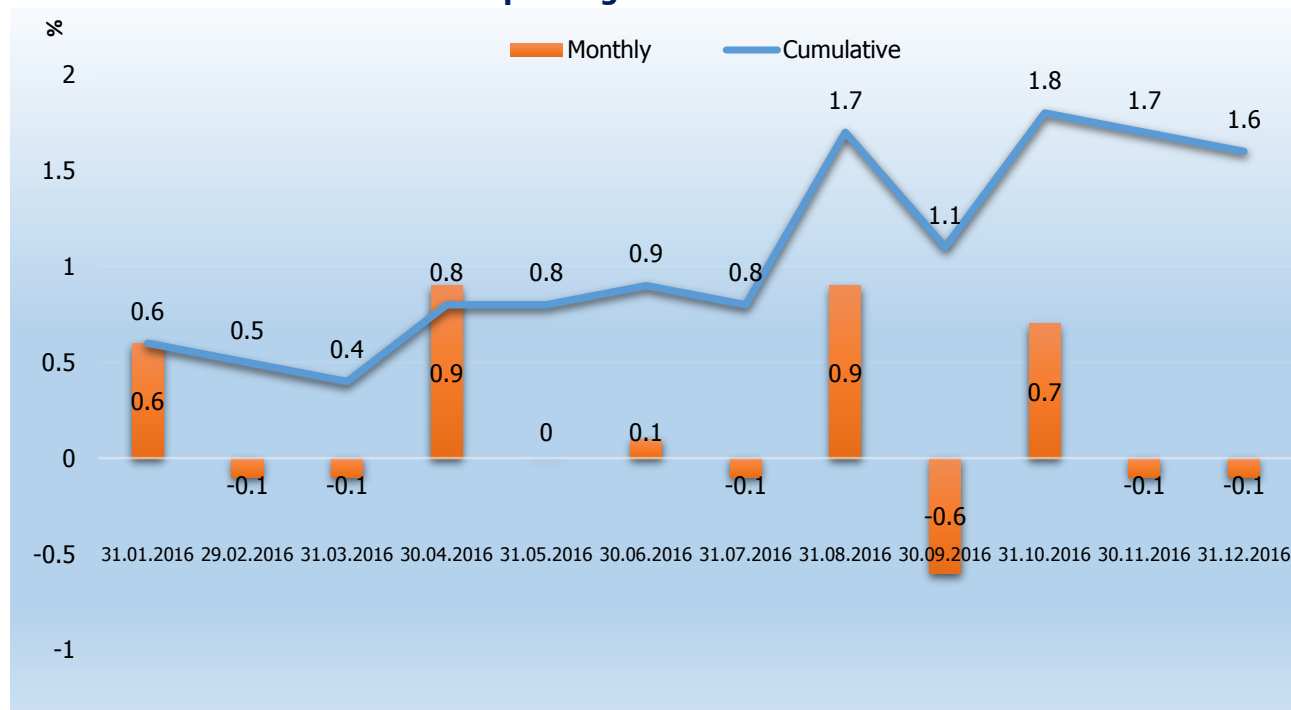
Commercial and retail loans as at 31 December 2016 increased by 25.46% compared to the end of 2015, while commercial and retail deposits increased by 24.09%.

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II FINANCIAL POSITION AND OPERATING RESULTS

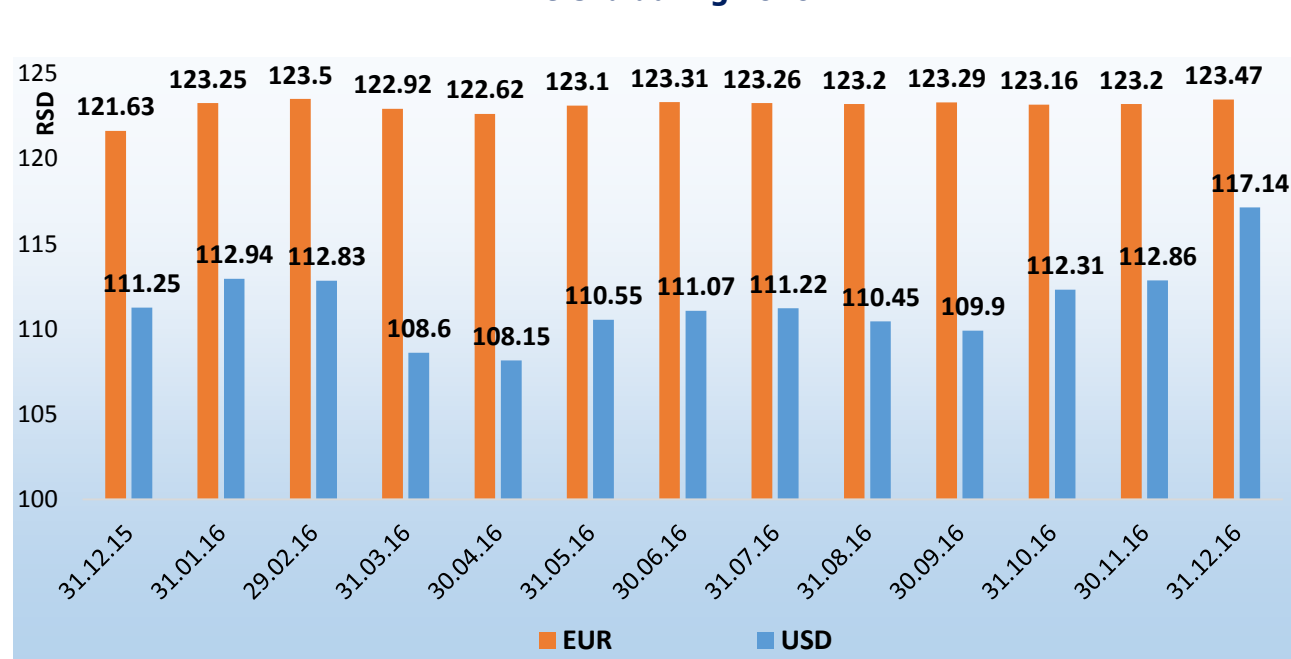
1. MACROECONOMIC ENVIRONMENT

Consumer prices growth in Serbia in 2016



During 2016 the growth of consumer prices equaled cumulatively 1.60%. The highest monthly growth was in April and August and it was 0.90%.

FX trend during 2016

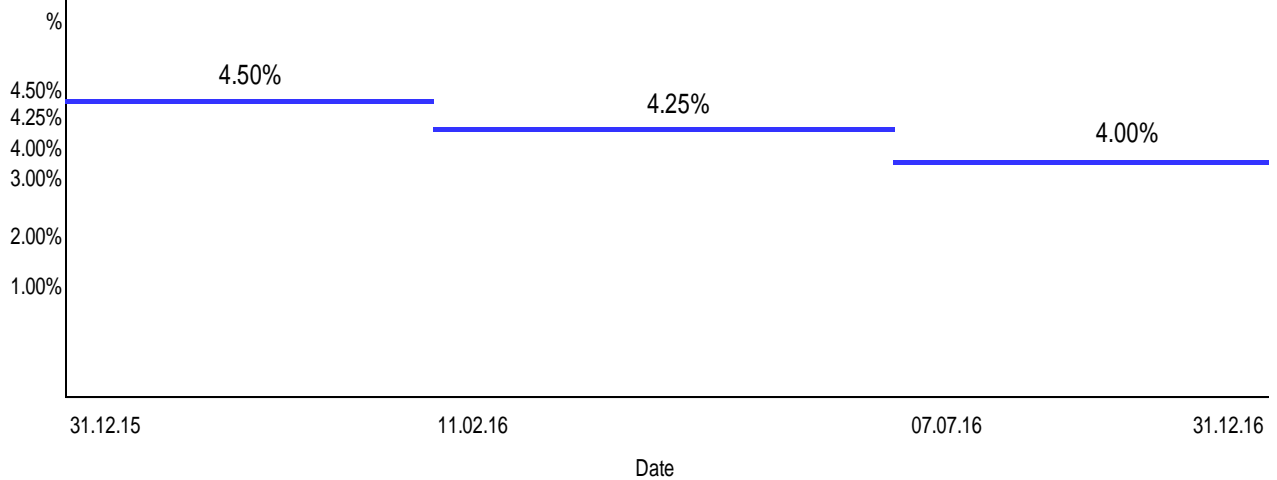


In the 2016 RSD depreciated against EUR by 1.51% and against USD by 5.29%.

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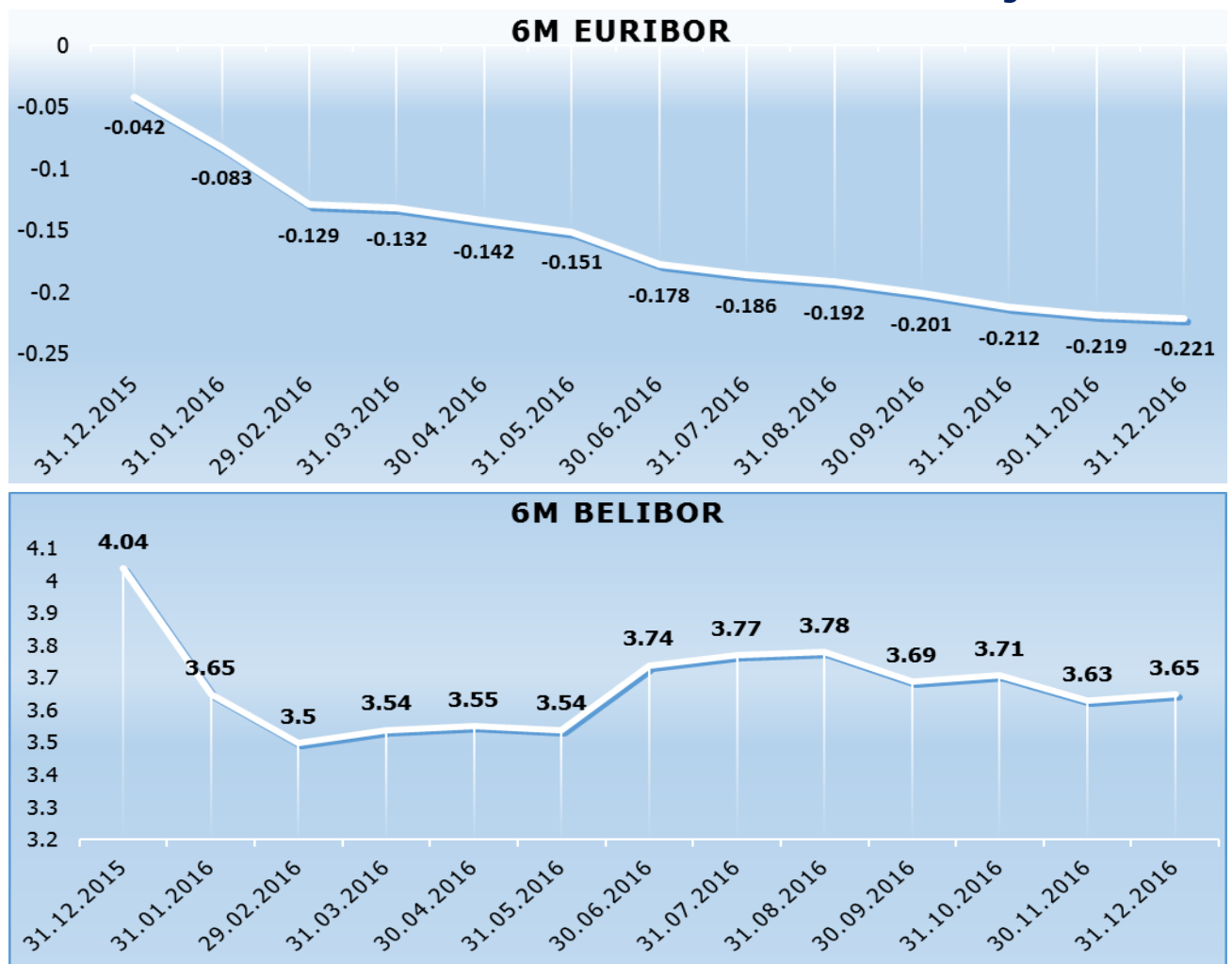
Fluctuation of the NBS referent rate

During 2016 the Executive Board of National Bank of Serbia decreased reference rate two times, so



that the reference rate was reduced from 4.50% at the beginning of the year to 4.00% at the end of 2016.

Fluctuation of the interest rates on the financial markets during 2016



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2. IMPLEMENTATION OF BASIC OPERATING TARGETS

The targets set out in the Operating Policy for 2016 were implemented through the following activities:

1. In the 2016 the Bank opened 4 new branches – in Belgrade in Kalenić Street and in Milutina Milankovića 9e (in the new Headquarter building in New Belgrade), Branch in Pančevo and Branch in Novi Pazar. Also, in 2016 Sub-branch in Pivarska Street in Čačak became branch.
2. During the 2016 the Bank was successfully maintaining the average Liquidity Ratio and Liquid Assets Ratio above the planned values for 2016. Average Liquidity Ratio was 1.79 which is above plan according to which average value should not fall below 1.50. Also average Liquid Assets Ratio was 27.62% which is above the plan according which average value should not fall below 24%.
3. The Bank finished 2016 with a profit amounting to EUR 1,102 thousand, which is significantly higher than planned values for 2016.

Realized values regarding this objective are shown in following table:

Indicators	(in RSD thousand)	
	31 December 2016	Plan for 2016
Net interest and fees income	1,921,518	1,912,500
Net profit/losses on impairment of financial assets and credit risk-weighted off-balance sheet items	(389,289)	(450,000)
Operating costs (salaries, depreciation and other expenses)	(1,429,288)	(1,567,875)
Profit	136,080	13,375

4. Net loan portfolio increased in the amount of RSD 4,862,868 thousand, and realized 92.17% of planned annual growth of net loans in 2016.

5. Deposit potential at the end of 2016 increased by RSD 3,731,962 thousand comparing to the end of 2015. The deposits of the corporate clients increased by RSD 1,423,540 thousand and deposits of retail clients increased by RSD 2,308,422 thousand. In this way, the Bank realized 115.96% of the planned annual growth of corporate deposits and 139.68% of the planned annual growth of the retail deposits.

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3. BALANCE SHEET

As at 12 December 2016 the Bank's total assets came to RSD 34,985,811 thousand and account for a 9.55% increase to the end of 2015.

3.1 Assets

(in RSD thousand)

ASSETS	31 December 2015	31 December 2016	Plan for 31 December 2016
Cash, cash equivalents and assets held with the central bank	4,081,407	4,090,612	4,369,625
Pledged financial assets	584,834	90,000	-
Financial assets at fair value through income statement and held for trading	295,295	23,984	62,500
Financial assets available for sale	244,349	3,177,595	500,000
Financial assets held to maturity	3,449,188	1,353,325	4,000,000
Loans and receivables from banks and other financial organizations	3,057,235	1,018,760	2,264,375
Loans and receivables from clients	19,195,483	23,997,783	24,375,000
Intangible assets	28,085	73,976	235,375
Property, plant and equipment	628,570	818,446	779,000
Investment property	130,028	126,337	128,750
Deferred tax assets	62,393	62,393	62,500
Other assets	177,945	152,600	186,500
TOTAL ASSETS	31,934,812	34,985,811	36,963,625

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The following table presents the currency structure of assets:

Assets	31 December 2015	%	31 December 2016	%
Dinars	11,030,640	34.54%	12,893,942	36.85%
Foreign currency	20,904,172	65.46%	22,091,869	63.15%
Total:	31,934,812	100.00%	34,985,811	100.00%

3.1.1 Loans and receivables from clients

The structure of Balance Sheet item: 'Loans and receivables from clients' as at 31 December 2015 and 31 December 2016 is given in the following table:

(in RSD thousand)

Loans and receivables from clients	31 December 2015	31 December 2016	Plan for 2016	% of change
Total net loans:	19,099,192	23,962,060	24,375,000	25.46%
Corporate net loans (without NPL clients)	12,392,364	15,041,077	15,500,000	21.37%
Retail net loans (without NPL clients)	4,013,905	6,132,787	6,250,000	52.79%
NPL - net	2,692,923	2,788,196	2,625,000	3.54%
Receivables:	96,291	35,723	-	-62.90%
Receivables for accrued interest and fees under loans, deposits and other placements	96,291	35,723	-	-62.90%
Total loans and receivables from clients:	19,195,483	23,997,783	24,375,000	25.02%

The Bank's net loan portfolio consisting of corporate and retail loans increased during 2016 by 25.46%.

(in RSD thousand)

Net loans	Planned changes in 2016	Realized changes in 2016
Corporate net loans (without NPL clients)	3,107,636	2,648,713
Retail net loans (without NPL clients)	2,236,095	2,118,882
NPL - net	(67,923)	95,273
Total:	5,275,808	4,862,868

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In 2016 the Bank approved to corporate and retail clients RSD 16,727,048 thousand loans, of which RSD 4,164,831 thousand for loans up to one-year maturity and RSD 12,562,217 thousand to loans over one-year maturity.

-Gross loans and receivables from customers - Corporate

Gross corporate loans as at 31 December 2016 amounted to RSD 20,460,407 thousand with the following structure:

(in RSD thousand)

Loan type	Currency	31 December 2015	31 December 2016	% of change
Loans from the Bank's resources	RSD	3,121,736	3,543,383	13.51%
Loans from the Bank's resources-subsidies	RSD	527,625	23,430	-95.56%
Loans from the Bank's resources	EUR	9,465,679	11,684,941	23.45%
Loans - EBRD credit line	EUR	22,057	8,374	-62.03%
Loans to SMEs from the Revolving Credit Fund (EAR)	EUR	1,555,703	1,328,099	-14.63%
HIT loans from the EFSE credit line	EUR	747,858	346,709	-53.64%
Loans from the GGF credit line	EUR	25,611	11,164	-56.41%
Loans covered with EIF guarantee	EUR	200,419	46,533	-76.78%
HIT Energy loans from KfW facility	EUR	224,426	157,719	-29.72%
Loans from the EIB facility	EUR	3,608,236	2,901,172	-19.60%
Loans from the FMO facility	EUR	146,402	82,009	-43.98%
Investment loans from the Italian Government facility	EUR	86,768	26,462	-69.50%
Loans from the IFC facility	EUR	15,748	1,610	-89.78%
Demir-Halk Bank (Nederland) N.V.	EUR	-	298,803	100.00%
Total:		19,748,268	20,460,407	3.61%

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In third and fourth quarter of 2016, according to the Decision of Halkbank's Board of Directors and NBS Guidelines on implementation of IAS 39, the Bank has written-off RSD 2,042,043 thousands of gross corporate receivables that had 100% impairment. In 2016 the Bank had amended Accounting policies because of changes in regulations and practice introducing new definition of direct write-off and general debt release. In accordance to the Board of Directors Decisions the Bank has made direct write-off of receivables and moved it to off-balance sheet items. This does not relate to the Bank's waiver from the agreed obligations and legal rights arising from loans. All these loans were fully impaired.

- Gross loans and receivables from customers – Retail

The total gross retail placements including non-performing loans as at 31 December 2016 amounted to RSD 6,253,866 thousand with the following structure:

(in RSD thousand)

Type of loan	31 December 2015	31 December 2016	% of increase/decrease
Consumer loans – EE/RE - GGF	532,662	361,660	-32.10%
Consumer loans – vehicle purchase	60,413	31,609	-47.68%
Consumer loans – other purposes	133,971	326,756	143.90%
Cash loans	1,309,843	2,761,504	110.83%
Mortgage loans	1,893,575	2,530,638	33.64%
Receivables related to DinaCard credit card	16,090	10,265	-36.20%
Allowed overdraft	83,246	105,163	26.33%
Disallowed overdraft and due loan receivables	113,450	126,271	11.30%
Total:	4,143,250	6,253,866	50.94%

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3.2 Liabilities

Total liabilities as at 31 December 2016 came to RSD 34,985,811 thousand with the following structure:

(in RSD thousand)

LIABILITIES	31 December 2015	31 December 2016	Plan for 2016
Deposits and other liabilities to banks, other financial organizations and central bank	702,699	2,715,013	1,550,000
Deposits and other liabilities to other clients	23,373,380	26,101,052	27,918,125
Subordinated liabilities	1,851,741	-	1,250,000
Provisions	91,639	42,466	92,000
Other liabilities	175,544	243,695	200,000
Total liabilities	26,195,003	29,102,226	31,010,125
Share capital	4,248,483	4,248,483	4,248,483
Profit	-	138,153	13,375
Loss	(185,467)	-	-
Reserves	1,676,793	1,496,949	1,691,642
Total Capital	5,739,809	5,883,585	5,953,500
TOTAL LIABILITIES	31,934,812	34,985,811	36,963,625

In terms of currency structure, there was the following balance:

(in RSD thousand)

Liabilities	31 December 2015	%	31 December 2016	%
Dinars	10,958,796	34.32%	12,955,023	37.03%
Foreign currency	20,976,016	65.68%	22,030,788	62.97%
Total:	31,934,812	100.00%	34,985,811	100.00%

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3.2.1 Deposits and other liabilities to banks, other financial organizations and central bank

The structure of the item Deposits and other liabilities to banks, other financial organizations and central bank and a comparative analysis as at 31 December 2015 and 31 December 2016 is presented in the following table:

(in RSD thousand)

Item	31 December 2015	31 December 2016	% of change
Transaction and other deposits	246,477	1,715,327	595.94%
- transaction deposits	19,922	15,544	-21.98%
- other deposits	226,555	1,699,783	650.27%
Borrowed loans in foreign currency:	381,385	617,362	61.87%
- EBRD	81,663	-	-100.00%
- IFC	86,876	-	-100.00%
- FMO	212,846	-	-100.00%
- Demir-Halk Bank (Nederland) N.V.	-	617,362	100.00%
Other liabilities	74,837	382,324	410.88%
Total:	702,699	2,715,013	286.37%

The biggest part of position other deposits refers to deposit from Turkiye Halk Bankasi A.S. in amount of EUR 10 million.

3.2.2 Deposits and other liabilities to other customers

The structure of the item Deposits and other liabilities to other customers and a comparative analysis as at 31 December 2015 and 31 December 2016 is presented in the following table:

(in RSD thousand)

Item	31 December 2015	31 December 2016	% of change
Transaction and other deposits	15,494,728	19,226,690	24.09%
- transaction deposits	7,243,837	8,446,234	16.60%
- other deposits	8,250,891	10,780,456	30.66%
Borrowed loans in foreign currency:	7,778,540	6,744,982	-13.29%
- EAR long-term deposits	1,504,058	1,268,190	-15.68%
- KfW	442,277	336,743	-23.86%
- EIB	5,418,202	4,892,052	-9.71%
- Italian Republic Government	82,572	23,895	-71.06%
- GGF	331,431	224,102	-32.38%
Other liabilities	100,112	129,380	29.23%
Total:	23,373,380	26,101,052	11.67%

In 2016 the Bank paid the principle of long-term loans to IFI's on a regular basis. During 2016 the Bank repaid the total amount of EUR 17,874 thousand and withdrawn EUR 5,413 thousand.

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Repayments relate to EBRD EUR 671 thousand, to IFC EUR 714 thousand, to FMO EUR 1,750 thousand, to KfW EUR 909 thousand, to EIB EUR 6.627 thousand (withdrawal amounted to EUR 1,700 thousand), to Italian Republic Government EUR 485 thousand and to GGF EUR 910 thousand. Also, in respect of long-term deposit from EAR the Bank repaid EUR 5,808 thousand (withdrawal amounted to EUR 3,713 thousand).

The total deposit base of the Bank, comprising of corporate and retail deposits, amounted to RSD 19,226,690 thousand and had the following structure:

(in RSD thousand)

Deposit base	31 December 2015	31 December 2016	Plan for 2016	% of change
Corporate clients	7,552,336	8,975,876	8,780,000	18.85%
Retail clients	7,942,392	10,250,814	9,595,000	29.06%
Total:	15,494,728	19,226,690	18,375,000	24.09%

(in RSD thousand)

Deposit base	31 December 2015	31 December 2016	% of change
Transaction deposits	7,243,837	8,446,234	16.60%
- Corporate clients	5,090,341	5,998,671	17.84%
- Retail clients	2,153,496	2,447,563	13.66%
Other deposits	8,250,891	10,780,456	30.66%
- Corporate clients	2,461,995	2,977,205	20.93%
- Retail clients	5,788,896	7,803,251	34.80%
Total:	15,494,728	19,226,690	24.09%

3.2.3 Capital

The capital of the Bank as at 31 December 2016 amounted to RSD 5,883,585 thousand and comprised of the following:

(in RSD thousand)

	31 December 2015	31 December 2016
Share capital – ordinary shares	1,819,820	1,819,820
Share capital – preference shares	1,340	1,340
Share capital - preference non-accumulative shares	600,000	600,000
Share premium	1,827,323	1,827,323
Revaluation reserves	317,051	322,675
Reserves from profit	1,359,742	1,174,274
Retained earnings	-	138,153
Loss up to the level of capital	(185,467)	-
Total capital:	5,739,809	5,883,585

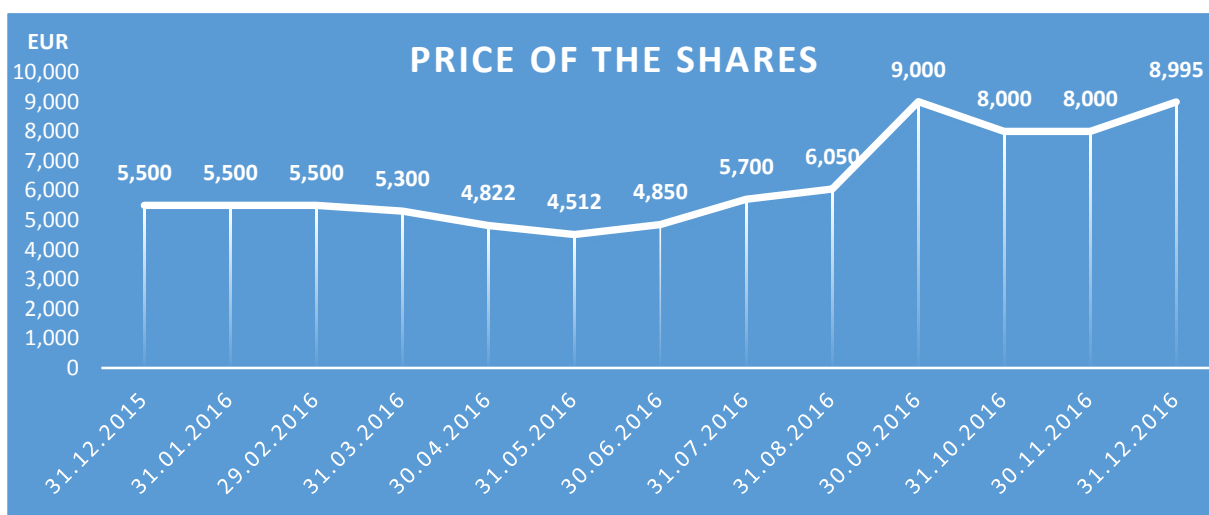
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The position "Retained earnings" comprises profit from operating activities in 2016 in amount of RSD 136,080 thousand and from cancelation of revalorization reserves recorded as benefit of retained earnings from previous years based on selling of business premises in amount of RSD 3,206 thousand and booking out actuary loss from cancelation of jubilee awards as charge to retained earnings from previous years in amount of RSD 1,133 thousand.

The information about the number of shareholders and the basic information of shares is presented in the following table:

Information of shares	31 December 2015	31 December 2016
Number of shareholders	409	407
Number of shares	242,116	242,116
Nominal value per share	10,000	10,000
Book value per share (in EUR)	23,706.85	24,300.68

The price of Bank's shares as at 31 December 2016 was RSD 8,995 accounting for a 63.55% increase relative to the price at the beginning of the year.



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4. OFF-BALANCE SHEET ITEMS

During the 2016 the Bank issued performance and payment guarantees and opened letters of credit for its customers. The structure of off-balance sheet items as at 31 December 2015 and 31 December 2016 is presented in the following table:

(in RSD thousand)

Item	31 December 2015	31 December 2016	Plan for 31 December 2016
Operations performed for and behalf of third parties	291,791	295,879	310,000
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	5,364,952	5,735,364	5,750,000
Other off-balance sheet items	46,632,739	50,903,080	48,000,000
Total:	52,289,482	56,934,323	54,060,000

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as at 31 December 2015 and 31 December 2016:

(in RSD thousand)

Guarantees, avals, acceptances and irrevocable liabilities	31 December 2015	31 December 2016	% of increase / decrease
Payment guarantees	1,662,313	1,436,821	-13.56%
Issued uncovered letters of credit in foreign currencies	14,067	50,440	258.57%
Issued letters of credit in foreign currencies confirmed by the Bank	-	500,062	100.00%
Performance guarantees	2,272,345	2,475,221	8.93%
Pledged securities	584,834	90,000	-84.61%
Irrevocable commitments	831,393	1,182,820	42.27%
Total:	5,364,952	5,735,364	6.90%

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In the following table position "Other off-balance sheet items" is presented:

(in RSD thousand)

Other off-balance sheet items	31 December 2015	31 December 2016	Change
Receivables for evidencing interest	3,721,064	4,081,544	9.69%
Republic of Serbia bonds by maturities	1,121,657	840,019	-25.11%
The undisbursed amount of revolving loans	1,626,760	1,838,612	13.02%
The unused amount of off-balance framework	201,062	289,881	44.17%
Loan frame	1,255,752	1,585,658	26.27%
Received material assets of collateral in favor of the Bank	37,619,581	38,411,093	2.10%
Received guarantees and other collaterals for settlement of obligations by the Bank's borrowers	875,464	1,282,965	46.55%
Other off-balance sheet items	211,399	531,266	151.31%
Write-off of receivables – directly write-off of receivables in accordance with MRS 39	-	2,042,043	100.00%
Total	46,632,739	50,903,080	9.16%

By the Decisions of Halkbank's Board of Directors and in accordance with the latest amendments to the NBS Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items of the Bank for application of MRS 39, all the receivables on the basis of loans and interest, which was a 100% impaired are written-off from balance sheet assets and moved to the off-balance sheet items in amount of RSD 2,042,043 thousand.

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5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Bank calculated items of the Statement of profit and loss for the period from 1 January to 31 December 2016 in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank finished its operations in the 2016 with a profit of RSD 136,080 thousand.

(in RSD thousand)

	31 December 2015	31 December 2016	Plan for 2016	% of plan accomplished
Interest income	1,626,812	1,604,833	1,712,500	93.71%
Interest expenses	(447,681)	(259,871)	(400,000)	64.97%
Net interest income	1,179,131	1,344,962	1,312,500	102.47%
Fee and commission income	659,033	663,889	675,000	98.35%
Fee and commission expenses	(83,301)	(87,333)	(75,000)	116.44%
Net fee and commission income	575,732	576,556	600,000	96.09%
Net gains on financial assets held for trading	26,321	11,646	25,000	46.58%
Net gains/(losses) on exchange rate and effects of contracted index clause	(10,487)	498	-	-
Other operating income	44,416	20,995	93,750	22.39%
Net gains/(losses) on impairment of financial assets and credit risk- weighted off-balance sheet items	(761,752)	(389,289)	(450,000)	86.51%
TOTAL NET OPERATING INCOME	1,053,361	1,565,368	1,581,250	98.99%
Salaries, salary compensation and other personal expenses	(526,929)	(584,536)	(650,000)	89.93%
Depreciation costs	(95,925)	(106,915)	(160,750)	66.51%
Other expenses	(618,318)	(737,837)	(757,125)	97.45%
PROFIT / LOSS BEFORE TAXATION	(187,811)	136,080	13,375	1,017.42%

Net interest income was 2.47% higher than the plan for the 2016 and net fee and commission income was by 3.91% lower than the plan for the 2016. The total net operating income is lower than the plan for 2016 by 1.01%.

Salaries, depreciation and other expenses were higher in the 2016 by 15.16% comparing to 2015 and 8.84% lower than the anticipated values for the 2016.

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5.1 Income

The income structure during the 2015 and 2016 was as follows:

(in RSD thousand)

Income	31 December 2015	31 December 2016	% of change
Interest income	1,626,812	1,604,833	-1.35%
Fee and commission income	659,033	663,889	0.74%
Net gains on financial assets held for trading	36,790	24,282	-34.00%
- net gains on the sale of securities	1	5,063	506,200.0%
- net gains on the change in fair value of securities	36,789	19,219	-47.76%
Net gains on exchange rate and effects of contracted index clause	3,397,889	2,524,436	-25.71%
- net exchange rate gains	2,098,677	1,480,764	-29.44%
- net gains exchange rate gains under contracted index clause	1,299,212	1,043,672	-19.67%
Income on reversal provision of jubilee awards*	-	19,523	100.00%
Other operating income	44,416	20,995	-52.73%
- income from operations	3,910	4,099	4.83%
- income on the sale of fixed assets and intangible investments	2,200	3,994	81.55%
- dividend income	1,058	3,144	197.16%
- surpluses	9,321	9,731	4.40%
- other income	103	-	-100.00%
- income on changes in value of liabilities	3,266	-	-100.00%
- income on reversal provision of severance payment	24,558	27	-99.89%
Net income on impairment of financial assets and credit risk-weighted off-balance sheet items	678,162	662,938	-2.24%
- income on reversal of impairment of balance sheet items	675,246	659,760	-2.29%
- income on reversal of provisions for off-balance sheet items	2,815	1,772	-37.05%
- income on collected written-off receivables	101	1,406	1.292.08%
Total:	6,443,102	5,520,896	-14.31%

*In Statement of profit and loss position "Salaries, salary compensation and other personal expenses" is shown in net amount decreased for income on reversal provision of jubilee awards

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The structure of the position "Interest income" is presented in the following table:

(in RSD thousand)

Interest income	31 December 2015	31 December 2016	% of change
Corporate	1,105,460	839,314	-24.08%
Retail	393,792	451,982	14.78%
Securities	74,076	175,457	136.86%
Other	53,484	26,376	-50.68%
Unwinding*	-	111,704	100.00%
Total	1,626,812	1,604,833	-1.35%

*Interest income on impaired loans which are measured at amortized cost

The most significant influence on decrease of interest income from loans to the corporate clients had the high liquidity of the banking sector which was not followed with adequate demand, which had effected decreasing of interest rates on loans in the banking market.

For the first time, the Bank has valued interest income on impaired loans using effective interest rate on depreciated value of loans (net value) – unwinding, with correction on positions "Interest income" and "Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items" in Statement of profit and loss. The effect is increase of interest income for corporate clients amounted to RSD 109,792 thousand and for retail clients to RSD 1,912 thousand.

The fees and commissions income was higher by 0.74% in 2016 compared to 2015 and lower by 1.65% than planned for 2016.

(in RSD thousand)

Fee and commission income	31 December 2015	31 December 2016	% of change
Fees from Bank-insurance	3,776	2,634	-30.24%
Brokers fees	5,394	3,452	-36.00%
Fees from checks and payment cards	25,400	29,011	14.22%
Fees from payment operations	386,709	403,984	4.47%
Fees from Western Union	3,410	2,678	-21.47%
Fees from FX changes	89,041	76,099	-14.53%
Fees from guarantees	95,211	83,301	-12.51%
Fees from SWAP	6,516	27,393	320.40%
Fees from loan processing	38,859	31,246	-19.59%
Other fees	4,717	4,091	-13.27%
Total	659,033	663,889	0.74%

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5.2 Expenses

Expenses had the following structure in 2015 and 2016:

(in RSD thousand)

Expenses	31 December 2015	31 December 2016	% of change
Interest expenses	447,681	259,871	-41.95%
Fee and commission expenses	83,301	87,333	4.84%
Net losses on financial assets held for trading	10,469	12,636	20.70%
- losses on the sale of securities	-	290	100.00%
- losses on change in fair value of securities	10,469	12,346	17.93%
Net losses on exchange rate and effects of contracted index clause	3,408,376	2,523,938	-25.95%
- net losses on exchange rate differences	2,195,362	1,706,983	-22.25%
- exchange rate losses under contracted index clause	1,213,014	816,955	-32.65%
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items	1,439,914	1,052,228	-26.92%
- losses on impairment of balance sheet assets	1,436,403	1,042,406	-27.43%
- losses on provisions for off-balance sheet items	1,772	9,333	426.69%
- losses on write-off of unrecoverable receivables	1,739	489	-71.88%
Salaries, salary compensations and other personal expenses	526,929	604,059	14.64%
- net salaries	526,929	599,829	13.83%
- provisions for severance payment and jubilee awards	-	4,230	100.00%
Depreciation costs	95,925	106,915	11.46%
Other expenses	618,318	737,837	19.33%
Operating expenses	558,649	734,472	31.47%
- material costs	52,144	57,151	9.60%
- production services	177,357	321,164	81.08%
- tax and contribution costs	96,208	106,164	10.35%
- intangible and other operating expenses	232,940	249,993	7.32%
Other operating expenses	59,669	3,365	-94.36%
- provisions for litigation	36,958	3,001	91.88%
- provisions for severance payment	981	-	-100.00%
- losses on changes in value of liabilities	20,366	-	-100.00%
- other expenses	1,364	364	-73.31%
Total:	6,630,913	5,384,817	-18.79%

The costs of production services increased mostly because of increasing in rental costs and advertising costs. The rental costs in 2016 were higher for RSD 62,990 thousand compared to 2015 because of relocation of the Headquarter from Čačak to Belgrade and opening new branches. Advertising costs increased for RSD 68,254 thousand in 2016 compared to 2015.

During 2016 the Bank strengthened deposit base with proactive approach, which created conditions for early repayment of subordinated loan to EFSE with maintaining of the planned level of liquidity. Situation on the market allowed collecting deposits with interest rates lower than 1%, while on subordinated loan the Bank was paying 6% interest rate. The direct effect of these activities is decrease of interest expenses by 41.95% compared to the previous year.

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The structure of the position "Interest expense" is presented in the following table:

(in RSD thousand)

Interest expense	31 December 2015	31 December 2016	% of change
Borrowings (International Financial Institutions)	247.196	104.970	-57,54%
Loans from the banks in RSD	13	4.439	-
Banks deposits	13.360	17.270	29,27%
Deposits – corporate	72.817	58.271	-19,98%
Deposits – retail	114.295	74.471	-34,84%
Ukupno	447.681	259.871	-41,95%

During 2016 the Bank strengthened deposit base with proactive approach, which created conditions for early repayment of subordinated loan to EFSE with maintaining of the planned level of liquidity. Situation on the market allowed collecting deposits with interest rates lower than 1%, while on subordinated loan the Bank was paying 6% interest rate. The direct effect of these activities is decrease of interest expenses by 41.95% compared to the previous year.

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6. CASH FLOWS

(in RSD thousand)

Position	January - December 2015	January – December 2016	Change
Cash inflows from operating activities	2,235,992	2,103,275	(132,717)
Cash outflows from operating activities	(1,629,726)	(1,769,790)	140,064
Net cash inflows from operating activities	606,266	333,485	(272,781)
Decrease of loans and increase of deposits	2,756,389	5,545,204	2,788,815
Increase of loans and decrease of deposits and other liabilities	756,494	2,105,951	1,349,457
Net cash inflows from operating activities before tax	2,606,161	3,772,738	1,166,577
Cash inflows from investment activities	7,200	5,126,244	5,119,044
Cash outflows from investment activities	(3,521,342)	(5,781,285)	2,259,943
Net cash outflows from investment activities	(3,514,142)	(655,041)	(2,859,101)
Cash inflows from financing activities	1,200,000	-	(1,200,000)
Cash outflows from financing activities	(1,194,411)	(2,762,096)	1,567,685
Cash inflows/(outflows) from financing activities	5,589	(2,762,096)	(2,767,685)
NET INCREASE OF CASH	-	355,601	355,601
NET DECREASE OF CASH	(902,392)	-	(902,392)
CASH AND CASH EQUIVALENTS ON THE BEGINNING OF THE YEAR	3,386,542	2,509,121	(877,421)
Positive FX changes	192,160	110,946	(81,214)
Negative FX changes	(167,189)	(92,455)	(74,734)
CASH AND CASH EQUIVALENTS ON THE END OF THE PERIOD	2,509,121	2,883,213	374,092

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Cash flows from operating activities during 2015 and 2016 are presented in the tables below:

(in RSD thousand)

	January - December 2015	January – December 2016	Increase/ decrease
Cash inflows from operating activities	2,235,992	2,103,275	(132,717)
Interest	1,569,026	1,433,910	(135,116)
Fees	661,861	662,217	356
Other operating income	4,047	4,004	(43)
Dividend and share in profit	1,058	3,144	2,086
Cash outflows from operating activities	(1,629,726)	(1,769,790)	140,064
Interest	(470,213)	(283,866)	(186,347)
Fees	(74,701)	(80,365)	5,664
Salaries	(526,929)	(650,582)	123,653
Tax and contribution	(108,441)	(122,546)	14,105
Other operating expenses	(449,442)	(632,431)	182,989
Net cash inflows from operating activities	606,266	333,485	(272,781)

Cash inflows from operating activities in 2016 decreased by RSD 132,717 thousand compared to 2015, mostly because of reduced inflows from interest in the amount of RSD 135,116 thousand.

Cash outflows from operating activities increased by RSD 140,064 thousand compared to 2015, mostly because of increase in outflows from salaries in the amount of RSD 123,653 thousand and increase in other operating activities outflows in amount of RSD 182,989 thousand on one side and reduced interest outflows in the amount of RSD 186,347 thousand on the other side. Outflows from salaries increased because of growth of expenses for salaries by RSD 77,130 thousand and increase in outflows for severance payments in the amount of RSD 46,523 thousand.

Outflows from other operating expenses are increased mostly because of higher amount of rental costs (RSD 62,990 thousand) and advertising costs (RSD 68,254 thousand).

Net cash inflows from operating activities in the 2016 amounted to RSD 333,485 thousand. Net cash inflows from the operating activities cumulatively decreased in 2016 by RSD 272,781 thousand comparing to 2015.

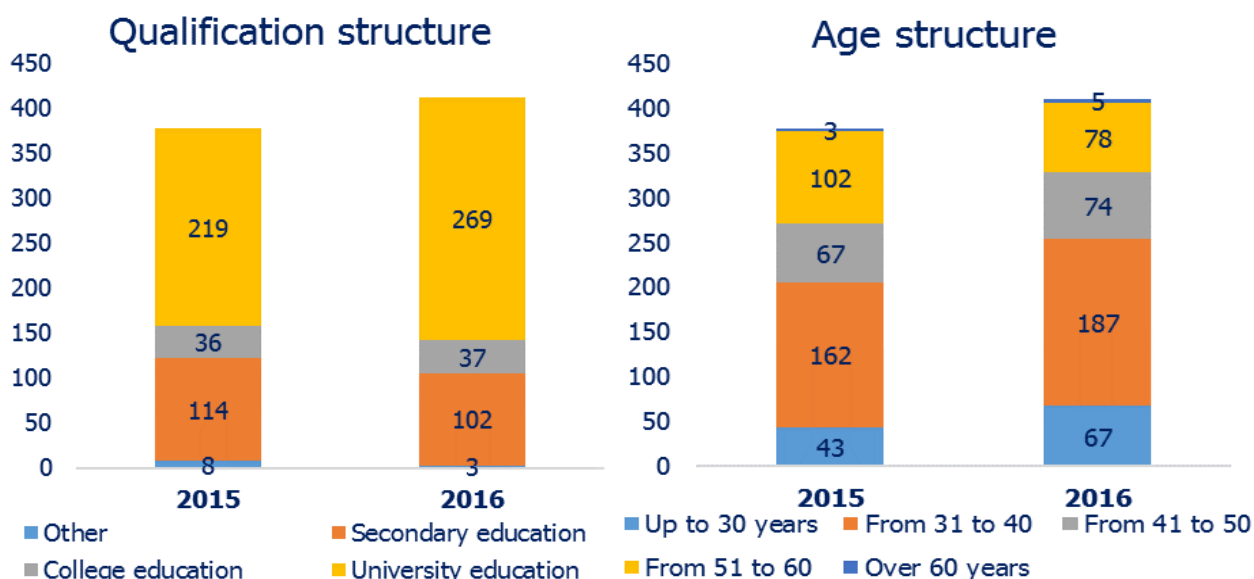
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7. HUMAN RESOURCES

The number of employees in the Bank's head office and branches as at 31 December 2016 is presented in the following table:

Number of employees	31 December 2015	31 December 2016	Plan for 2016
Headquarter	184	190	185
Branches and sub-branches	193	221	265
Total:	377	411	450

The following graphs show the qualification and age structure of employees as at 31 December 2015 and 31 December 2016.



Regarding the qualification structure of employees at the end of 2016, the Bank met anticipated share of employees with university degree accounting for 65.45% of the total. The share of staff younger than 40 years was 61.80%.

Expenses for salaries, salary compensation and other personal expenses in 2016 amounted to RSD 599,829 thousand and accounting for 92.28% of the total budget planned.

The amount of RSD 3,294 thousand was spent for staff training in the 2016. The average training costs per employee in 2016 was RSD 8 thousand.

In 2016 the annual rate of fluctuation of employees was around 19%. The main reason for the high fluctuation was organizational changes from relocation of Headquarter from Čačak to Belgrade. In 2016, 77 employees stopped working for the Bank, out of which 45 due to organizational changes. Also 111 new employees were hired in 2016 (53 in business network and 58 in Headquarter in Belgrade).

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8. INVESTMENT PLAN

During the 2016 total investments in fixed assets, investment property and intangible investments amounted to RSD 343,086 thousand.

Changes at these balance sheet items are presented in the following table:

(in RSD thousand)

	Buildings	Equipment	Investment property	Intangible investments	Total	Plan for 2016*
Balance – 01 January 2016	503,746	124,824	130,028	28,085	786,683	786,683
Increase:	9,151	248,330	-	85,605	343,086	570,875
IT	-	180,313	-	85,605	265,918	463,875
Adaption of business premises	9,151	41,619	-	-	50,770	72,000
Other	-	26,398	-	-	26,398	34,500
Decrease:	(21,539)	(46,066)	(3,691)	(39,714)	(111,010)	(190,750)
Amortization	(17,447)	(46,063)	(3,691)	(39,714)	(106,915)	(160,750)
Sale	(4,092)	(3)	-	-	(4,095)	(30,000)
Balance 31 December 2016	491,358	327,088	126,337	73,976	1,018,759	1,166,808

The biggest part of intangible investments refers to Microsoft licenses in amount of RSD 58,031 thousand. A part of planned investments for 2016 which refers to innovative and technologically advanced model of payment cards will be used in 2017.

The biggest part of investment in IT equipment refers to purchasing of hardware and software for increasing of Storage System, also for improving data security and e-mail communication security in the amount of RSD 151,749 thousand.

In line with the expansion plans of the business network of the Bank, during 2016 it was invested in adaptation of business premises for opening of branches in Pančevo, in Kalenić street and Bulevard Milutin Milanković in Belgrade and in Novi Pazar. Also, there was a relocation of Headquarter of the Bank in a new building in Bulevard Milutin Milanković in New Belgrade, renovated and relocated of branches in Šabac and renovated of branch in Cara Dušana Street in Belgrade.

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9. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

During 2016 all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS decisions.

Ratio	The values prescribed by the NBS regulations	Values as at 31 December 2016
Bank's equity	Min 10,000,000 €	32,192,443 €
Capital adequacy ratio	min 12%	15.64%
Foreign exchange risk ratio	max 20%	2.28%
Liquidity ratio	min 1	1.76
Narrow liquidity ratio	min 0,7	1.38
Exposure to one person or group of related persons	max 25%	11.13%
Total exposure to group of related persons	max 25%	10.93%
Sum of large exposures	max 400%	17.92%
Investing into non-financial persons	max 10%	0%
Total investments into non-financial persons and fixed assets of the Bank	max 60%	23.77%

Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)

Pursuant to the defined limits in the agreements concluded with the IFIs - German Development Bank (KfW), Green for Growth Fund (GGF), the Bank is required to comply with certain financial covenants until the final repayment of the loans. As at 31 December 2016 the Bank was not complied with open credit exposure ratio because of amendments on Decision of National Bank of Serbia on classification of balance sheet and off-balance sheet items referring to the part where coefficient for decreasing of required reserve is used.

Financial institution	Indicator	Prescribed value	Value at 31 December 2016
GGF	Open credit exposure ratio	10.00%	23.78%

According to the loan agreements, the Bank regularly reports to the international financial institutions of its financial ratios in accordance with its financial liabilities, with detailed elaboration on each exceeded limit. The Bank does not expect any negative reactions by the creditors regarding this matter, considering that the Bank received written confirmation that it will be performed correction on defined value of indicator (it will be 30%).

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10. REPORT ON BOARD OF DIRECTORS MEETINGS IN 2016

During 2016 the Board of Directors held 9 meetings in 2016.

The 7th meeting of the Board of Directors was held in Barbaros Mahallesi Sebboy Sokak No:4 Atasehir / Istanbul on 8 January 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 6th meeting;
2. Passing a decision on granting authorization to the EB for the sale of receivables from problematic client of the Bank, "Jugoagent" a.d.;
3. Passing a decision on granting authorization to the EB for the sale of receivables from problematic client of the Bank, "FRA" a.d.;
4. Passing a decision on adopting the Annual Report on Inventory of Assets and Assets Sources of Halkbank a.d. Belgrade on 31 December 2015;
5. Miscellaneous

The 8th meeting of the Board of Directors was held in Belgrade, Boulevard Milutina Milankovića 9ž on 16 March 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 7th meeting;
2. Information for the Board of Directors about Balance Sheet and Statement of profit and loss of the Bank;
3. Reviewing the report of the Internal Audit Department for the period from 1 July to 31 December 2015, with regard to the Annual Plan 2015 implementation and monitoring non-compliance for 2015;
4. Annual report on compliance controls in 2015 with identified and assessed major compliance risks and the introduction of the plan of training of employees for 2016;
5. Reporting on the Audit Committee Activities in the period from 1 November – 31 December 2016;
6. Passing a decision on adopting of credit procedures guidelines;
7. Information about decisions passed by the Executive Board under the authorization of the Board of Directors in the period from 1 November 2015 -31 December 2016;
8. Passing a decision on opening correspondent account at Halkbank a.d. Skopje;
9. Passing a decision on Amending the Capital Management Strategy and Plan;
10. Passing a decision on preliminary approval of the Board of Directors for the Bank's exposure over 10% of the capital to the Unipromet d.o.o. Čačak;
11. Annual report on Risk Management Adequacy and Internal Control of the Bank in 2015;
12. Miscellaneous

The 9th meeting of the Board of Directors was held in Barbaros Mahallesi Sebboy Sokak No:4 Atasehir / Istanbul on 18 April 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 8th meeting;
2. Passing a decision on granting authorization to the EB for drawing subordinated loan in amount of EUR 10 million on up to 7-year maturity;
3. Passing a decision on IT investments in amount of EUR 3,500 thousand (with VAT), which consists of investment in equipment (EUR 1.509 thousand) and investments in software and licenses (EUR 1,991 thousand)
4. The proposal for the adoption of the Operating report for 2015, as well as the submission of the report to the Assembly;

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5. The proposal for the adoption of Report of the external auditor KPMG d.o.o. Belgrade on audit of the financial statements of the Bank for 2015, as well as the submission of the report to the Assembly;
6. The proposal for the adoption of the Bank's Financial Statements for 2015, as well as the submission of the proposal to the Assembly;
7. The proposal to cover loss (according to the Bank's Financial Statements for 2015) from the reserves formed by profit from previous years and the submission of the proposal to the Assembly;
8. The proposal for the adoption of Decision on the Bank's Operating Policy for 2016 and the submission of the proposal to the Assembly;
9. The proposal on appointing an external auditor to audit the Bank's Financial Statements for 2016 and the submission of the proposal to the Assembly;
10. The proposal for submitting to the Assembly of the Bank on the amendments of Statute of the Bank;
11. Proposal for submitting to the Assembly of the Bank on amendments to the Agreement Establishing the Bank;
12. Consideration of information about fees in 2015 for members of Board of Directors and members of Executive Board and the submission to the Assembly;
13. Making decision about scheduling XXXIV Assembly of the Bank regular meeting and establishing proposals of decisions that will be discussed at the meeting;
 - 13.1. Opening the meeting and appointment of the Commissions for voting and Scorer;
 - 13.2. Reporting of Commission report for voting;
 - 13.3. The adoption of the report on the operations of the Bank for 2015;
 - 13.4. External auditor's report on the audit of financial statements for 2015;
 - 13.5. The adoption of the financial statements for 2015;
 - 13.6. Making decisions on covering the loss for the Financial Statements for 2015;
 - 13.7. Adoption of the Business Policy for 2016 with accompanying decisions;
 - 13.8. Making decisions on appointing an external auditor to audit the final statements for the year 2016;
 - 13.9. Making decisions on amendments to the Statute of the Bank;
 - 13.10. Making decisions on changes and amendments to the Agreement Establishing of the Bank;
 - 13.11. Information on the income of members of Board of Directors and the Executive Board in 2015 and the proposal for remuneration for 2016;
 - 13.12. Making decisions on the dismissal and appointment of members of the Board, as well as the proposal of the Decision on remuneration of the Board of Directors.
14. Passing a decision on adopting Report on Internal capital adequacy assessment process (ICAAP) for 2015;
15. The proposal to the Assembly of the bank on the dismissal and appointment of the President of the Board of Directors, as well as proposal of decision on fees for the members of the Board of Directors;
16. Miscellaneous

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The 10th meeting of the Board of Directors was held in Belgrade, Boulevard Milutina Milankovića 9ž on 11 May 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 9th meeting;
2. Adoption of the Operating report for the first quarter of 2016;
3. Passing a decision on amendments the Country Risk Management Policy;
4. Passing a decision on giving approval for exposure and limit proposal for Bosnia and Herzegovina;
5. Passing a decision on making exposure limit in amount of EUR 10 million, and not above 25% of Bank's capital to Halkbank a.d. Skopje, Makedonija;
6. Passing a decision on making exposure limit in amount of EUR 10 million, and not above 25% of Bank's capital to ZiraatBank BH dd, Bosina and Herzegovina;
7. Passing a decision on granting authorization to the EB for cession of the Bank's loan receivables from "Grafocard" company;
8. Passing a decision on granting authorization to the EB for cession of the Bank's loan receivables from "Metal Sistemi" company;
9. Passing a decision on limit increase to the "TEKLAS Automotive";
10. Passing a decision on amendments of organizational scheme;
11. Passing a decision on granting authorization to the EB for making sub-branches into branches if it is necessary;
12. Miscellaneous

The 11th meeting of the Board of Directors was held in Belgrade, Boulevard Milutina Milankovića 9ž on 3 August 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 10th meeting;
2. Information about collection of problematic loans process;
3. Passing a decision on abrogation of Decision of Board of Directors number 3772 from 28 August 2015 and amendments parts 2 and 3 of Decision number 7099 from 17 December 2013:
4. Passing a decision on participation of the Bank in public sale "TC Kocka" from Paraćin, which belongs TRPS group;
5. Passing a decision on giving approval about increase of exposure limit for group "Truck Stop Tomy" d.o.o. Šimanovci;
6. Passing a decision on giving approval about increase of exposure limit for group "Kompanija Jovanović";
7. Passing a decision on revision of PR and fixed assets budget;
8. Passing a decision on granting authorization to the EB for making sub-branch "Pivarska" into Branch "Pivarska";
9. Passing a decision on amendments the Country Risk Management Policy;
10. Reporting on the Audit Committee Activities in the period from 01 February – 30 April 2016;
11. Reviewing the report of the Internal Audit Department for the period from 01 January – 30 June 2016;
12. Bank's Operating report for the period 1 January – 30 June 2016;
13. Management Letter provided by the external auditor KPMG d.o.o. Belgrade
14. Passing a decision on adopting Business conduct and ethical principles Code;
15. Passing a decision on adopting of Preventing Corruption Policy;
16. The proposal to the Assembly of the Bank on changing Headquarter place of Halkbank a.d. Belgrade;

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17. The proposal for adopting to the Assembly of the Bank on the amendments of Statute of the Bank
18. Proposal for adopting to the Assembly of the Bank on amendments to the Agreement Establishing the Bank;
19. The proposal to the Assembly of the Bank on the dismissal and appointment of an independent member of the Board of Directors;
20. Making decision about scheduling IX Assembly of the Bank extraordinary meeting and establishing proposals of decisions that will be discussed at the meeting:
 - 20.1. Opening of the meeting and appointment of the Commission for voting and Socer;
 - 20.2. Reporting of Commission report for voting;
 - 20.3. Adoption of Minutes of the regular meeting of the Assembly XXXIV HALK Bank, Belgrade;
 - 20.4. Making decisions on changing the seat of the Bank;
 - 20.5. Making decisions on changes and amendments to the Statute of the Bank;
 - 20.6. Making decisions on changes and amendments to the Agreement Establishing of the Bank;
 - 20.7. Making decisions on the dismissal and appointment of the independent members of Board;
 - 20.8. Miscellaneous.
21. Information of the decisions passed by the Executive Board under the authorization of the Board of Directors in the period from 01 February – 30 April 2016;
22. Passing a decision on the dismissal and appointment of member of Executive Board;
23. Passing a decision on approving decision limit of Credit sub-committee
24. Passing a decision on approving offer from Asseco company in amount of EUR 1,237,500 without VAT;
25. Miscellaneous

The 12th meeting of the Board of Directors was held in Barbaros Mahallesi Sebboy Sokak No:4 Atasehir / Istanbul on 03 August 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 11th meeting;
2. Passing a decision on direct write-off balance sheet items receivables and transfer these receivables into off-balance sheet items:
3. Miscellaneous

The 13th meeting of the Board of Directors was held in Halkbank a.d. Beograd, Branch in Novi Pazar, Street AVNOJ-a 10 on 14 October 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 12th meeting;
2. Passing a decision on granting authorization to the Executive Board to participate in purchasing property – house in Paraćin;
3. Passing a decision on adopting of Recovery Plan of the Bank;
4. Information about delivered statements of member of Executive Board and Board of Directors from task 78 on Law on Banks;
5. Passing a decision on adopting new Organizational scheme;
6. Passing a decision on appointment president and members of Credit Committee and ALCO committee;
7. Passing a decision on the dismissal and appointment of Head of Internal Audit Department;
8. Passing a decision on giving preapproval for the client Demir-Halk Bank Netherland;

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9. Passing a decision on borrowing from Demir-Halk Bank Netherland in amount of EUR 5 million;
10. Passing a decision on giving preapproval for the client "Aster Tekstil" d.o.o. Niš;
11. Passing a decision on giving preapproval for the client "TEKLAS Automotive" d.o.o. Vladičin Han;
12. Passing a decision on amendments of Decision of Board of Directors about giving authorization to the Executive Board of the Halkbank a.d. Beograd to make decisions about some questions which are in jurisdiction of Board of Directors;
13. Miscellaneous

The 14th meeting of the Board of Directors was held in Belgrade, Boulevard Milutina Milankovića 9e on 28 November 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 13th meeting;
2. Passing a decision on amendments of Management and collection of problematic loans Strategy;
3. Passing a decision on adopting the Bank's Operating report for the period 1 January - 30 September 2016;
4. Report on the liquidity ratio stress tests in the period from 01 September – 131 October 2016;
5. Passing a decision on adopting the plan of Internal Audit Department for 2017, with adopted changes of the plan for 2016;
6. Passing a decision on adopting Work Plan for Internal Audit Department;
7. Reporting on the Audit Committee Activities in the period from 01 May – 30 September 2016;
8. Passing a decision on adopting the guidelines for preparing Bank's Operating policy for 2017;
9. Passing a decision on giving preapproval on total Bank's exposure to the client "DIPeM" d.o.o. Čačak can be higher than EUR 1,500,000, or maximum limit in amount of EUR 2,200,000;
10. Passing a decision on giving preapproval on total Bank's exposure to the group of related clients "DECO" d.o.o. Vrnjačka Banja can be higher than EUR 1,500,000, or maximum limit in amount of EUR 2,500,000;
11. Passing a decision on sale of Bank's receivables from "Metal Sistemi" d.o.o. Kragujevac in bankruptcy, in minimal amount EUR 2,000,000;
12. Passing a decision on giving approval to the Executive Board for passing a decision on opening two new branches in Belgrade;
13. Passing a decision on adopting annual Work Plan of Compliance and AML Department for 2017 with plan of employees' education;
14. Passing a decision on adopting Program for compliance monitoring of the Bank's operations;
15. Passing a decision on direct write-off balance sheet items receivables and transfer these receivables for receivables from "Farmakom MB" d.o.o.;
16. Miscellaneous

The 15th meeting of the Board of Directors was held in Barbaros Mahallesi Sebboy Sokak No:4 Atasehir / Istanbul on 23 December 2016 with following agenda:

1. Opening the meeting and adoption of the Minutes of the 14th meeting;
2. Passing a decision on adopting Guidelines for preparing business plan of the Bank for 2017 with macroeconomic analyses and analyses of the banking sector in Serbia;

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3. Passing a decision on amendments to the Accounting policies;
4. Reviewing and/or adopting of Risk Management Strategies and policies:
 - 4.1. Risk management strategy;
 - 4.2. Strategy and plan for capital management;
 - 4.3. The policy of credit risk management;
 - 4.4. The policy of liquidity risk management;
 - 4.5. Policy of market risk;
 - 4.6. The policy of strategic risk management;
 - 4.7. Reputational Risk Management Policy;
 - 4.8. Operational Risk Management Policy;
 - 4.9. The policy of interest rate risk management;
 - 4.10. Country risk management policy;
 - 4.11. Privacy Risk Management environment and society;
 - 4.12. Privacy Risk Management concentration.
5. Adopting of IS development strategy;
6. Adopting of internal documents for Bank's business continuity management;
 - 6.1. Adoption of recovery strategies in the event of a business interruption;
 - 6.2. Adoption of the Business Continuity Plan (BCP);
 - 6.3. Adoption of the Plan of recovery activities in the event of a disaster (DRP).
7. Proposal of the Decision on dismissal and appointment member of the board of Directors;
8. Making decision about scheduling X Assembly of the Bank extraordinary meeting and establishing proposals of decisions that will be discussed at the meeting;
 - 8.1. Opening of the meeting and appointment of the Commission for voting and Socer;
 - 8.2. Reporting of Commission report for voting;
 - 8.3. Approval of the Minutes of the ninth extraordinary session of the Assembly;
 - 8.4. Making decisions on the dismissal and appointment of members of the Management Board;
 - 8.5. Information on submitted statements by members of the Executive and Management Committee referred to in Article 78 of the Law on Banks;
 - 8.6. Miscellaneous.
9. Information of the decisions passed by the Executive Board under the authorization of the Board of Directors in the period from 01 May 2016 – 30 November 2016;
10. Reporting on the Audit Committee Activities in the period from 1 October – 31 October 2016;
11. Report on the liquidity ratio stress tests in the period from 01 November – 30 November 2016;
12. Miscellaneous

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III INVESTMENT FOR THE PURPOSE OF ENVIRONMENTAL PROTECTION

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and Procedure BPI-751-503 E&S Risk Management.

The following bodies are responsible for managing the E&S risk in the Bank:

- Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments thereto,
- Executive Board that establishes and implements the E&S Risk Management Procedure,
- Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Creditworthiness Appraisal Department,
- The Credit Division that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
- The Portfolio Management Department that monitors loans by their activities, industrial sectors and E&S risk categories

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.

There are the following E&S risk categories:

- High – Exclusion List
- High – Referral List
- High – Category A
- High
- Medium
- Low

If the activity which is subject to financing is included in the Exclusion List, the application will be rejected. In the event that they are classified in high risk category A, the Environmental Impact Assessment will be provided from the client, and the person appointed by the Executive Board for the SEMS maintenance will provide a prior consent for financing the project.

When reviewing application with the decision draft for the relevant credit committee, the Credit Division verifies classification of the activity with regard to E&S risk and the data about the E&S impact of the client and the financed activity.

In the events anticipated by the Procedure, the integral part of the application analysis will be the opinion of the Credit Division about how the client submitting the application complies with E&S regulations and standards. Loan agreements and agreements on other exposures contain E&S provisions that should be obeyed by both the client and the Bank.

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Environmental risk

Overview of the Bank's exposures by environmental and social risk categories

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31 December 2015	31 December 2016	31 December 2015	31 December 2016	
High – Exclusion List	-	-	-	-	-
High – Category A	7	7	188,990	112,766	(76,224)
High	229	204	6,324,463	6,576,746	252,283
Medium	1,074	956	9,022,943	10,979,399	1,956,456
Low	2,224	1,923	12,811,870	12,053,862	(758,008)
Total:	3,534	3,090	28,348,266	29,722,773	1,374,507

The exposure to the clients which financed activity is in "High – exclusion list" category does not exist neither on 31 December 2016 neither on 31 December 2015.

IV MATERIAL EVENTS AFTER THE END OF BUSINESS YEAR

In accordance with the Decision G.Nb. 963 from 1 February 2017, National Bank of Serbia started controlling activities on 20 February 2017 in the part related to the Credit Risk and control of Capital Adequacy Ratio calculation as at 31 December 2016, as well as control of bank management.

V ANTICIPATED FUTURE DEVELOPMENT

When preparing the Major Financial Indicators and Guidelines for Business Plan 2017, it was presumed increase in balance sheet equal to 27% (in EUR).

It is planned 3 new branches and consequently increasing in the number of employees. The plan is to increase loan portfolio for EUR 63 million (loans to corporate clients for EUR 38 million and loans to retail clients for EUR 25 million). On the passive side, the increase in capital in amount of EUR 20 million is planned and increase of deposits in the amount of EUR 38 million. Also, one source of funding will be credit lines from international institutions in the amount of EUR 25 million.

VI RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank carries out a regular financial market research, analyses customers' financial needs and investigates a degree of satisfaction of the users of financial services.

The Marketing Division of Halkbank continuously develops new products and services and endeavors, on the basis of the information and conclusions acquired upon the market research and customers' needs, to develop and place at the market modified existing products, as well as completely new products and services.

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VII INFORMATION ON PURCHASE OF OWN SHARES

The Bank never owned its own shares and did not acquire them during 2016.

VIII EXISTENCE OF AFFILIATES

As at 31 December 2016 the Bank operates in Head office and of 5 branches in Belgrade, 14 branch offices located in the towns of Jagodina, Gornji Milanovac, Čačak, Kraljevo, Užice, Kragujevac, Kruševac, Arandjelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo and Novi Pazar, and 9 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac and Čačak (2 branches).

IX RISK MANAGEMENT ADEQUACY

The Bank's targets in risk management are identification, measuring, mitigating and monitoring all types of risks and thus minimizing the Bank's exposure to such risks.

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of a loan loss reserve pursuant to the NBS regulations and impairment and provisions pursuant to the IFRS.

Structure of gross risk-weighted assets in terms of classification categories

(in RSD million)

Classification categories	Classified amount 31 December 2015	% of the share in gross risk-weighted assets	Plan for 31 December 2016						
			Classified amount 31 December 2016	% of the share in gross risk-weighted assets		Classified amount	% of the share in gross risk-weighted assets		
A	16,879	49.72%	18,838	50.85%		19,946	50.97%		
B	8,425	24.82%	9,207	24.85%	75.70%	11,014	28.14%	79.11%	
V	821	2.42%	3,009	8.12%	8.12%	815	2.08%	2.08%	
G	1,157	3.41%	1,620	4.38%		819	2.09%		
D	6,664	19.63%	4,370	11.80%	16.18%	6,538	16.72%	18.81%	
Total:	33,946	100.00%	37,044	100.00%		39,132	100.00%		

Compared to 31 December 2015 the participation of receivables classified in A and B categories increased by 1.17 p.p.

The participation of receivables classified in the V category increased by 5.68 p.p. mostly because deteriorated classification of receivables which had banking guarantees as collateral. These banks' rating changed in 2016, so those guarantees cannot be treated as first-class collateral.

The share of receivables classified in the G and D category decreased by 6.85 p.p. The share of receivables classified in D category decreased by 7.83 p.p. as the result of collection of doubtful receivables and write-off of receivables which were 100% impaired.

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Pursuant to the Procedure for Credit Risk Management at the portfolio level, the Bank amortized the high level of the credit risk measured through the assets quality by establishing adequate reserves.

Loan loss reserve pursuant to the NBS Decision on Classification

(in RSD thousand)

	31 December 2015	31 December 2016	Plan for 2016
Loan loss reserve under balance sheet assets	7,187,307	5,221,924	7,087,052
Loan loss reserve under off-balance sheet items	43,797	75,616	38,104
Total:	7,231,104	5,297,540	7,125,156

Provisions according to the Bank's internal methodology in accordance with IAS 39

(in RSD thousand)

	31 December 2015	31 December 2016	Plan for 2016
Impairment of balance sheet assets to be classified	4,860,701	2,818,811	5,305,785
Provisions for losses under off-balance sheet items	2,008	9,569	6,918
Impairment of other financial assets	21,073	12,249	
Total:	4,883,782	2,840,629	5,312,703

The biggest influence on decreasing of impairment of classified assets in 2016 had direct write-off of receivables which were 100% impaired as well as good collection of NPL. The performed write-off was not included in the planned figures for 2016.

Required loan loss reserve

(in RSD thousand)

	31 December 2015	31 December 2016	Plan for 2016
Required reserve	2,419,056	1,648,182	4,223,996

A required loan loss reserve is the sum of positive differences between the estimated loan loss reserve and the established impairment of the balance sheet and provisions for off-balance sheet losses at the borrower's level. As at 31 December 2016 the required reserve was RSD 2,497,245 thousand but it is corrected using coefficient for decreasing by 34%. Required reserve calculated as about mentioned represents deductible item from the Bank's regulatory capital and as of 31,12,2016 it amounted to RSD 1,648,182 thousand. The calculation defined by the National Bank of Serbia Decision on classification of balance and off-balance sheet items took into force from 30 September 2016.

Coefficient for decreasing of amount of required loan loss reserve is calculated on the basis of decreased NPL ratio from non-financing and non-government sector as at 31 December 2016 comparing to 30 June 2016.

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Liquidity Risk**Liquidity Ratio and Narrow Liquidity Ratio proscribed by NBS in the 2016**

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of 31/12/16	1.76	1.38
Average	1.79	1.30
Maximum	2.75	1.70
Minimum	1.20	0.90
Daily NBS limit	Min 0.80	Min 0.50
NBS limit on monthly level	Min 1.00	Min 0.70

The limits of the National Bank of Serbia are regulated by the Decision on risk management. Liquidity ratios of the Bank during 2016 were in accordance with the prescribed limits.

In order to adequately manage liquidity risk, the Bank monitors internally established indicators of structural liquidity, besides the limits proscribed by the NBS.

Additional liquidity ratios in the 2016

	Min.	Max.	Average	Limit
Liquid assets ratio	22.07%	35.67%	27.62%	Min 20.00%
Net loans to total deposits ratio	93.45%	124.84%	108.89%	Max 200.00%
Customers' deposits to total deposits ratio	92.28%	100.00%	99.42%	Min 75.00%
Deposit concentration ratio	17.80%	25.91%	20.87%	Max 30.00%

The Bank was within internally proscribed liquidity limits during 2016.

Foreign exchange risk**FX Risk ratio in 2016**

Value as of 31/12	2.28%
Average	3.07%
Maximum	11.90%
Minimum	0.30%
Limit NBS	Max 20%

Foreign currency risk measured by FX Risk ratio was mostly located in the low risk category in 2016. The average value of the foreign currency risk ratio amounted to 3.07%.

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Interest rate risk

Interest rate risk management is carried out in the Risk Management Department through measurement and monitoring of revaluation risk of interest rates (repricing risk), the base interest rate risk, yield curve risk and option risk.

The impact of changes in interest rates on the economic value of the Bank is monitored through total net weighted position of the banking book. The total net weighted position shows how much is the change of the economic value of the Bank in the event of changes in interest rates of all maturities by 200 basis points. The Bank manages its assets and liabilities so that total net weighted positions expressed in absolute amount does not exceed 20% of its capital.

Total net weighted position of the Bank as of 31 December 2016

	(in 000 RSD)
Total net weighted position	5,077
Equity	3,974,875
Total net weighted position and equity ratio	0.13%

Interest rate risk was monitored through weighted value of interest rate GAP in relation to equity. As of 31 December 2016 the value of the weighted interest rate GAP, amounted to 0.13% of its equity, which is well below the limit of 20% of the prescribed by Procedure for managing interest rate risk.

Operational risk

In 2016 it was recorded 134 operational risk events, i.e. 68 events more than in 2015.

The largest number of operational risk events referred to the cash shortage or cash surpluses, and they were successfully resolved (80 events of cash shortage, 32 events of cash surplus). The remaining 22 operational risk events were related to: the cases of external fraud, errors in the transmission of orders, incomplete documentation, failures in working with applications.

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From the remaining amount of 22 cases, 4 cases of external fraud is more significant with total gross loss of 85 thousand EUR. For 3 from 4 cases the Bank still leads court processes while remaining 18 cases of operating risk were completely solved with net loss of 0 RSD. The Bank does not expect in this moment negative finalization of cases raised against the Bank and according to this the Bank did not formed provisions at the year end.

01 January 2016 – 31 December 2016.		Level of risk defined by internal methodology
Number of events	134	
Of which: Cash shortage	80	Critical (over 71 events)
Of which: Cash surplus	32	Medium (31 to 50 events)
Of which: Other	22	Low (up to 30 events)
Gross loss in EUR	167.159	
Net loss in EUR	978	

According to the criterion of the number of events of the same kind during the one year, the type of event the cash shortfall was in the category of critical risks, while type of event the cash surplus was in the category of medium risk.

In relation to the type of event, 120 operational risk events were related to the execution, delivery and management processes, 9 events were related to clients, products and business practices, 4 were related to the case of external fraud and activities and 1 event was related to expense of the fixed assets.

The Bank also performs risk assessment on entrusting activities to the third parties (outsourcing), based on the contracts concluded with these persons which have clearly defined rights and obligations.

When introducing new products, processes and systems or new business activities the Bank performs assessment and identification of operational risk.

Exposure risk

The Bank's exposure to persons related to the Bank and its large exposures as of 31 December 2016

	(in 000 RSD)	% of equity	Limit NBS
Persons related to the Bank	434,398	10.93%	Max 25%
Large exposures	712,488	17.92%	Max 400%

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Exposure of the Bank to entities related to the Bank on the date 31 December 2016. was within the prescribed limits of the National Bank of Serbia of 25% of regulatory capital, as well as the sum of large exposure within the limit of 400%, while in the context of internally prescribed limits the sum of all large exposures was in low risk category (up to 200% of regulatory capital).

For all large exposures, the Bank have the decisions of the Board of Directors on loan approval and defining exposure limits.

Loan concentration risk

	31 December 2015	31 December 2016	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	23.84%	21.20%	Max 30.00%

Concentration ratio of 20 largest exposures as at 31 December 2016 amounted to 21.20% and was within the internally prescribed value. The ratio decreased by 2.64 p.p. compared to 31 December 2015.

Investment Risk

The Bank's investments into non-financial persons were in a low risk category (below 6% of equity). Total investments into non-financial persons and fixed assets were also in a low risk category (below 45% of equity).

Bank's investments into non-financial sectors and fixed assets as at 31 December 2016

	Investments into non- financial sectors	Investments into fixed assets	Total
Amount (000 RSD)	-	944,783	944,783
Share in equity	0%	23.77%	23.77%
Limit NBS	Max 10%	-	Max 60%

Country Risk

The Bank establishes a system for classifying the countries according to the level of country risk which was based on international credit rating (Moody's, Standard & Poor's and Fitch).

As at 31 December 2016 according to an internal model of risk categories the bank is exposed to a satisfactory level within category of low and medium risk.

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Review of countries of clients whose exposure enters to country risk as at 31 December 2016.

Country	Risk category
Germany	Low
USA	Low
Macedonia	Medium
Montenegro	Medium
Turkey	Medium

Securities portfolio

The total value of the securities held for trade, available for sale and securities held to maturity as at 31 December 2016 was RSD 4,644,904 thousand.

Item	31 December 2015	31 December 2016
Financial assets recognized at fair value through income statement and held for trading:	295,295	23,984
- Shares of banks and other financial institutions	8,344	519
- Shares of companies	18,805	23,465
- Bonds of the Republic of Serbia - deposited foreign currency savings	268,146	-
Financial assets available for sale	244,349	3.177,595
- Municipal bonds	92,056	86,269
- Republic of Serbia bonds available for sale in RSD	-	1,947,447
- Treasury bills issued by the Republic of Serbia in RSD	-	207,069
- Treasury bills issued by the Republic of Serbia in foreign currency	152,293	936,810
Financial assets held to maturity	3,449,188	1,353,325
- Treasury bills issued by the Republic of Serbia in RSD	598,823	2,772,295
- Bonds of the Republic of Serbia in RSD	569,881	255,507
- Treasury bills issued by the Republic of Serbia in foreign currency	-	241,089
- Bonds of the Republic of Serbia in foreign currency	184,621	180,297
Pledged financial assets	584,834	90,000
- Treasury bills issued by the Republic of Serbia in foreign currency	358,154	-
- Bonds of the Republic of Serbia - deposited foreign currency savings	226,680	90,000
Total:	4,573,666	4,644,904

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Collection and coverage of NPLs

Gross NPLs based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

Ratio	31 December 2015	31 December 2016	% of change
Gross NPL	7,038,905	5,151,898	-26.81%

Gross NPL as of 31 December 2016 was reduced by 1,887,007 thousand RSD compared to 31 December 2015.

In 2016 the Bank has collected 394,804 thousand RSD of NPLs: 361,185 thousand RSD from companies and 33,619 thousand RSD of retail clients.

In addition to the collection of NPLs, reduction of NPLs has been influenced by write-offs that were conducted during the year 2016.

Share of NPLs in total Bank's loans

Ratio	31 December 2015	31 December 2016	Plan for 31.12.2016
Share of gross NPLs in total gross loans	29.98%	19.48%	28.90%
Share of net NPLs in total net loans	14.17%	11.40%	13.33%

The Strategy for NPL Management and Collection defines basic ratios and their values for ensuring satisfactory coverage of NPLs, as well as the level of loan loss reserves that enables minimizing negative effects of any deterioration of asset quality on the Bank's capital adequacy.

In accordance with this Strategy, the bank's target is to maintain NPL coverage ratio by impairment of total loans above 55%.

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NPL coverage

Ratio	31 December 2015	31 December 2016	Plan for 31 December 2016
Impairment, loan loss provisions on off-balance sheet items and required reserve / NPL	103.45%	103.33%	>100%
Impairment of total loans / NPL	63.28%	54.88%	>55%

Compared to the 31 December 2015 as at 31 December 2016, the ratio of NPL coverage by impairment, loan loss provisions on off-balance sheet items and required reserve for estimated losses, decreased by 0.12 p.p, and the ratio of NPL coverage by impairment decreased by 8.40 p.p. due to write off fully impaired receivables.

Portfolio of acquired assets as at 31 December 2016

Acquired assets	Acquisition date	Net carrying value		Comment
		31 December 2015	31 December 2016	
Material assets acquired upon collection of receivables		1,390	6,205	
- Business premises, counter hall, area 48 m ² , KO Šume, Ivanjica	26 December 2014	1,390	1,415	Decision of EB about sale has been adopted on 10.11.2015
-Apartment, Cacak, Filipa Filipovica 19, 87 square metres	01 September 2016	-	4,790	The apartment is taken from the main debtor, on the basis of the Court Decision from Cacak on 10.08.2016

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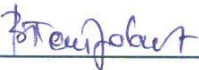
X CORPORATE GOVERNANCE RULES

Corporate governance rules of Halkbank a.d. Beograd are regulated in the following by-laws:

- Statute;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Board of Directors Members and
- General Operating Conditions.
-

These documents are publicly available at the Bank's website: <http://www.halkbank.rs/>

HALKBANK AD BEOGRAD



Person responsible for preparing the Report

Vesna Petrović

Member of Executive Board



Erturk Sumer



Chairman of the Executive Board



Kenan Bozkurt

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