Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 December 2015

New Europe Capital SRL
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Statistics

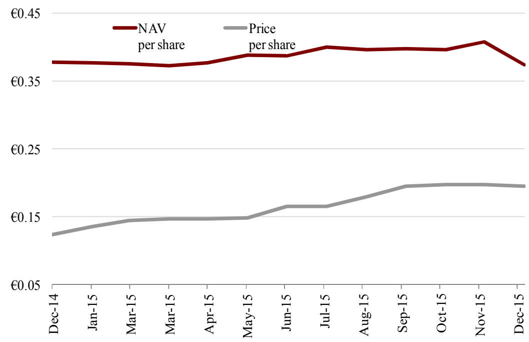
NAV per share (€) - undiluted	0.3736
NAV per share (€) - fully diluted	0.2847
Total NAV (€ m) - undiluted	37.4
Total NAV (€ m) - fully diluted	46.3
Share price (€)	0.1950
Mk Cap (€ m)	19.5
# of shares (m) - undiluted	100.0
# of shares (m) - fully diluted	162.6
NAV return since inception†	-60.94%
12-month NAV CAGR†	-0.94%
NAV annualized Return*†	-8.97%
NAV annualized Volatility*†	19.20%
Best month (NAV)†	15.60%
Worst month (NAV)†	-33.53%
# of months up (NAV)†	63
# of months down (NAV)†	57

*† undiluted basis * since inception*

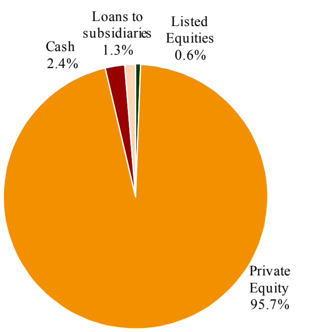
RC2 NAV returns (undiluted basis)

	2011	2012	2013	2014	2015
Jan	-0.54%	0.12%	-31.58%	-0.65%	-0.07%
Feb	0.24%	-9.69%	-0.51%	-0.34%	-0.34%
Mar	2.48%	-0.50%	-0.62%	2.94%	-0.70%
Apr	0.70%	-0.66%	0.29%	2.73%	0.93%
May	0.55%	-4.98%	-33.53%	2.70%	3.11%
Jun	0.25%	-1.47%	-0.85%	0.28%	-0.38%
Jul	0.13%	-0.73%	-0.28%	0.44%	3.24%
Aug	-1.10%	0.61%	1.27%	3.23%	-0.85%
Sep	-1.25%	0.01%	-0.69%	0.01%	0.31%
Oct	2.63%	-0.82%	-0.72%	1.87%	-0.35%
Nov	-0.25%	-0.36%	0.43%	0.15%	3.17%
Dec	-0.49%	0.29%	-16.44%	0.73%	-8.47%
YTD	3.32%	-17.17%	-62.64%	14.91%	-0.94%

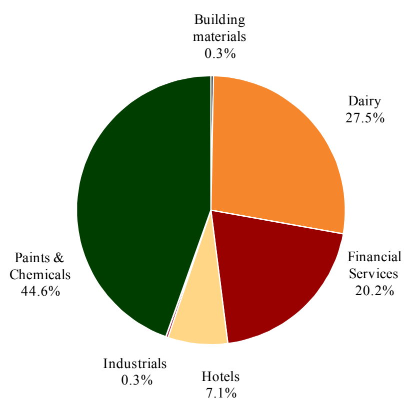
Share price / undiluted NAV per share (€)



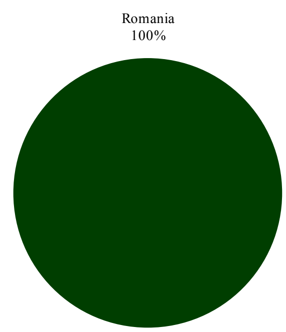
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Adviser

Dear Shareholders

Over the fourth quarter, RC2's NAV per share fell 5.72% from €0.3970 to €0.3736, both on an undiluted basis, mainly due to the new independent valuations of the unlisted investments which were recorded in the December 2015 NAV. Whilst the value of the Romanian private equity investments were virtually unchanged overall, the equity investment in Klas, the Serbian bakery operation, was written down to zero, and RC2's outstanding shareholder loan to Klas was written down from €1.5m to €0.6m, in both cases including accrued interest.

The Policolor Group's recurring EBITDA was virtually flat year-on-year, reflecting good performances from the decorative paints and resins businesses but weak automotive paint sales, whilst the anhydrides division suffered from the volatility in crude oil prices. The buyers of the Policolor real estate were not able to fulfil their contractual commitments by year end and Policolor is considering various options to deal with the default. As at 31st December 2015 RC2's shareholding in Policolor was valued at €19.9m, slightly down on the previous €20.6m valuation.

Top Factoring had an excellent year, with higher than expected collections on existing portfolios resulting in a number of write-ups of the values of its portfolios, helping the EBITDA reach €5.1m, or three times the 2015 budget. A new independent valuation resulted in the Top Factoring Group being valued at €9.0m as at 31st December 2015, which was slightly higher than the prior valuation.

Albalact achieved a preliminary EBITDA result of €11.0m in 2015, significantly higher than the budgeted €7.0m, due to lower raw milk prices and a better sales mix. RC2 agreed to sell this investment in January 2016, and is currently waiting for various conditions precedent to be accomplished before the sale can be completed.

Mamaia Resort Hotels' EBIDTA increased by over 100% to €0.51m, mainly driven by higher food & beverage sales. The increase contributed to a slightly higher independent valuation of RC2's stake at €3.2m.

Klas succeeded in halving its EBITDA loss from €-2.3m in 2014 to €-1.1m during 2015, and saw an improvement in its sales over the second half of the year.

At the end of the year, the Fund had cash and cash equivalents of approximately €1.1m and short-term liabilities of €0.2m.

Yours truly,

New Europe Capital

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Romanian company Policolor SA and its 100%-owned Bulgarian subsidiary Orgachim AD form the largest producer of coatings in Romania and Bulgaria. The Group also includes Orgachim Resins, the leading supplier of resins in South East Europe, and Ruse Chemicals, a producer of anhydrides. All the Group companies are unlisted.

Group Financial results

(EUR '000)	2014*	2015B	2015**	2016B
Consolidated Income statement (according to IFRS)				
Total operating revenues	**52,839**	**65,552**	**56,371**	**64,937**
Total operating expenses	**(55,549)**	**(63,993)**	**(57,775)**	**(65,748)**
Operating profit	**(1,642)**	**1,559**	**(1,404)**	**(810)**
Operating margin	*neg.*	*2.4%*	*neg*	*neg*
Recurring EBITDA	2,438	4,271	2,257	1,806
Non-recurring EBITDA	(563)	1,000	(105)	(125)
Total EBITDA	**1,875**	**5,271**	**2,152**	**1,681**
EBITDA margin	*3.5%*	*8.0%*	*3.8%*	*2.6%*
Net extraordinary result		10,891	259	
Financial Profit/(Loss)	(957)	(2,009)	(905)	(855)
Profit before tax	**(2,600)**	**10,441**	**(2,050)**	**(1,665)**
Income tax	114	(2,654)	(2)	
Profit after tax	**(2,486)**	**7,788**	**(2,052)**	
Minority interest	48			
Profit for the year	**(2,438)**	**7,788**	**(2,052)**	
avg exchange rate (RON/EUR)	*4.45*	*4.50*	*4.44*	*4.50*

*Note: * audited, ** unaudited*

The Group's 2015 consolidated sales were 6.7% higher than in 2014, but considerably lower than the budget. In spite of good performances from the Bulgarian coatings and resins businesses, and a satisfactory performance from the Romanian decorative paints business, the fall in profitability in 2015 reflects a weak automotive business whilst the anhydrides business unit suffered from the volatility of crude oil prices. Overall, the Group generated recurring EBITDA of €2.2m, virtually flat year-on-year, but significantly below budget.

In 2015, overall paints and coatings sales grew by 9.4%. 2015 was the first full year of operations of the Group's resins factory which has been rebuilt after a fire in January 2012. Orgachim Resins achieved sales of €12.9m (27.5% over budget), whilst the EBITDA was €0.6m, almost twice the budget. Due to the high volatility of oil prices, the Group's anhydrides plant was only operated for six months in 2015. It managed to generate sales of €7.5m and almost breakeven EBITDA.

Real Estate

The buyers of the Policolor real estate were not able to fulfil their contractual commitments, which involved purchasing two plots of land with a total surface of 84,000 sqm by the end of 2015 for a total price of € 11.1m. Policolor is in a strong position as it has already received a €3m deposit to secure the buyers' obligations, and is considering various options to deal with the situation.

Prospects

The 2016 budget provides for a significant fall in EBITDA at Group level, mainly as a result of the two Romanian paints and coatings divisions transforming their business model from indirect to direct distribution, thereby building up a considerable amount of sales force and logistics costs in anticipation of a sharp increase in sales. The resins business is projected to achieve sales of €17m, up 32.5% year-on-year, whilst the budget provides for lower sales of anhydrides due to the ongoing volatility of oil prices.

Top Factoring Group

Background

RC2 invests in Romanian non-performing loans through its 100%-owned subsidiary Glasro Holdings Ltd ("Glasro"), and also owns a 93% interest in Top Factoring, a Romanian receivables collection company. Top Factoring and Glasro are together referred to as the "Top Factoring Group" or the "Group".

Group Financial Results

EUR'000	2014*	2015B	2015**	2016B
Combined Group Income Statement				
Net revenues	**8,147**	**7,027**	**10,007**	**8,828**
Debt purchase	7,252	6,269	9,028	8,037
gross collections	11,460	11,873	12,903	11,950
amortization and fair value adjustments of debt portfolios	(4,207)	(5,604)	(3,874)	(3,913)
Mandate agreements	894	757	978	791
Operating expenses	**(4,560)**	**(5,326)**	**(4,901)**	**(4,848)**
EBITDA	**3,587**	**1,701**	**5,106**	**3,979**
EBITDA margin (%)	*44.0%*	*24.2%*	*51.0%*	*45.1%*
Depreciation	(135)	(153)	(242)	(330)
Earnings before taxes	**2,894**	**1,198**	**4,314**	**3,157**
Income tax	(547)	(150)	(586)	(410)
Net profit	**2,347**	**1,048**	**3,728**	**2,747**
Net profit margin (%)	*28.8%*	*14.9%*	*37.3%*	*31.1%*
Avg exchange rate (RON/EUR)	*4.445*	*4.420*	*4.445*	*4.450*

*Note: * IFRS (audited), IFRS** (management accounts)*

2015 was an excellent year for the Top Factoring Group. Gross collections on proprietary portfolios amounted to €12.9m, up 12.6% year-on-year and 8.7% above budget. Collections from banking portfolios accounted for 79% of total collections, with the balance of 21% being generated by telecoms portfolios. The share of collections generated by the field and legal departments increased from 11% and 21%, respectively, in 2014 to 14% and 30%, respectively, in 2015. The balance of 56% was collected by the call centre. Legal collection tends to work better for banking portfolios, whilst field collection is more suitable for telecoms cases.

The agency business generated revenues of €0.98m, up 9.4% year-on-year, mainly triggered by higher collections for banking clients.

With collections on proprietary portfolios exceeding the budget, the Group booked a total of €3.9m of write-ups in 2015, contributing to an excellent EBITDA result of €5.1m based on the unaudited management accounts, which is three times the original budget target of €1.7m.

Operations

Glasro invested €5.3m in debt portfolio acquisitions in 2015, up from €4.9m in 2014. The 2015 acquisitions were financed by a combination of bank loans (€4.4m) and equity (€0.9m). At the end of December, the Group owned 980,000 cases with a total face value of €294m.

Prospects

The 2016 budget is based on €3.8m of estimated new investments in portfolios, gross collections of €12m, operating cashflow of €7.2m, and an EBITDA of €4m.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a publicly quoted Romanian dairy company in which RC2 holds a 25.4% stake under its Private Equity Programme. A local entrepreneur (Mr Raul Ciurtin) and his family own 42.5%, with 28.8% representing the free float and 3.3% representing treasury shares acquired within a buy-back program. With Albalact's market capitalization increasing by 9% over the quarter, the value of RC2's shareholding increased from €11.3m as at 30 September 2015 to €12.3m as at 31 December 2015.

Financial results

EUR '000	2013*	2014*	2015B	2015**
Consolidated Income Statement				
Sales Revenues	**87,270**	**91,826**	**94,259**	**100,427**
Total Operating Revenues	**87,502**	**94,807**	**94,259**	**98,865**
Total Operating Expenses	(85,410)	(93,490)		(93,016)
Operating Profit	**2,092**	**1,317**		**5,849**
Operating margin	*2.4%*	*1.4%*		*5.9%*
EBITDA	**5,834**	**6,040**	**6,966**	**11,021**
EBITDA margin	*6.7%*	*6.4%*	*6.1%*	*11.1%*
Profit before Tax	**1,346**	**360**		**4,825**
Income Tax	(238)	(177)		(1,400)
Profit after Tax	**1,107**	**183**		**3,425**
Minority Interest	3	11		6
Profit for the year	1,110	194		3,430
Net margin	*1.3%*	*0.2%*		*3.4%*
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.45*	*4.44*

*Note: * IFRS (audited), ** IFRS (unaudited)*

Based on preliminary unaudited financial statements disclosed by the Company in February, Albalact's 2015 sales of €100.4m were up 9% year-on-year, and 6.5% ahead of the budget which had been revised in October. Albalact posted an excellent preliminary 2015 EBITDA of €11m, triggered by lower raw material prices as well as a better sales mix involving more sales of higher value-added products such as yoghurts.

The Company has not yet disclosed its 2016 budget to the market.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the now re-branded ZENITH – Conference & Spa Hotel (the "Hotel"), which is located at Mamaia, Romania's premium seaside resort next to the city of Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

Financial results and operations

(EUR '000)	2014*	2015B	2015**	2016B
Income Statement				
Sales Revenues	**1,972**	**2,129**	**2,331**	**2,527**
Total Operating Revenues	**2,045**	**2,129**	**2,335**	**2,527**
Total Operating Expenses	(2,106)	(1,923)	(2,004)	(2,163)
Operating Profit	**(61)**	**207**	**331**	**364**
Operating margin	*neg.*	*9.7%*	*14.2%*	*14.4%*
EBITDA	**253**	**487**	**510**	**580**
EBITDA margin	*12.4%*	*22.9%*	*21.8%*	*22.9%*
Profit after Tax	**(158)**	**107**	**207**	**204**
Net margin	*neg.*	*5.0%*	*8.9%*	*8.1%*
Avg exchange rate (RON/EUR)	*4.445*	*4.450*	*4.445*	*4.450*

*Note: *RAS (audited), **RAS (management accounts)*

Based on management accounts, the Company's 2015 operating revenues were 9.5% above budget and 14% above 2014, mainly due to higher food & beverage sales which increased by 30.7% year-on-year and amounted to 48% of sales. Accommodation revenues accounted for 47% of overall sales and increased by 6% year-on-year. In terms of sales channels, in 2015 64% of the accommodation revenues were generated by agency bookings, 15% by direct reservations from "walk-in" clients, 12% by corporate contracts, and the balance of 9% was generated through online channels. The 2015 EBITDA of €0.51m was 4.7% above budget, and twice the 2014 result.

Prospects

In December, the Company terminated its franchise contract with Golden Tulip and re-branded the Hotel as the ZENITH - Conference & Spa Hotel. In order to ensure the presence of the Hotel on major international booking engines, the Hotel has entered into an agreement with Top International Hotels, a German-based company which provides distribution and marketing activities for hotels worldwide.

The 2016 budget is based on accommodation revenues of €1.2m (up 9% year-on-year), primarily driven by a higher percentage of "walk-in" and online bookings, which generate higher tariffs. The 2016 food & beverage revenues are expected to increase from €1.1m to €1.2m, supported by an improving macroeconomic climate with lower taxes giving consumers greater purchasing power. The construction of a spa facility is currently underway, with June 2016 being the target for its completion.

Klas

Background

Klas DOO ("Klas" or the "'Company"), the former bakery division of East Point Holdings Ltd, is 52%-owned by RC2, with the balance being owned by Darby, part of the Franklin Templeton investment group, and DEG, the German overseas development finance institution. In addition to its equity investment, RC2 had a shareholder loan (including accrued interest) of €0.6m outstanding as at 31 December 2015.

Financial results and operations

EUR '000	2014*	2015B	2015A**	2016B
Net sales	**10,659**	**8,299**	**5,097**	**5,613**
EBITDA	**(2,266)**	**(388)**	**(1,095)**	**50**
EBITDA margin	*-21.3%*	*-4.7%*	*-21.5%*	*0.9%*
Profit after tax	**(2,826)**	**(1,664)**	**(2,056)**	**(604)**
Net margin	*-26.5%*	*-20.1%*	*-40.3%*	*-10.8%*

*Note: * audited, ** management accounts*

Klas continued to perform poorly in 2015, with sales experiencing a 52% year-on-year fall (compared to a 27% fall over the previous year), although much of the fall resulted from the management discontinuing unprofitable sales to certain key accounts, and the EBITDA loss of €-1.1m was 48% less than over the prior year. This performance is a the result of continued pressure on margins, competition from small "grey economy" corner bakeries, and an overall fall in Serbia's consumption of bread and related products (a 23% fall over 2010 to 2015).

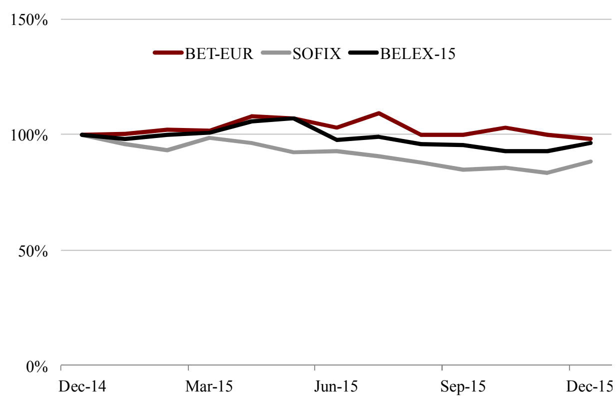
However, management has succeeded in stabilizing the business, with daily production volumes now at 32 tons as opposed to 26 tons after the cancellation of its main contract with the leading local retail chain in January 2015. Management has made tentative efforts to increase prices (from RSD 58.30 per kg in October to RSD 60.67 per kg in December), but has not been able to bring them back to the January 2015 level.

Breakeven at EBITDA level has proved to be an elusive goal in 2015, and management now hopes to reach it in the second quarter of 2016. The focus in 2016 will be on retaining existing market share, as well as expanding the sales of chilled products, higher value breads and pastries.

On the 29th December 2015, Klas agreed to the conversion of €3m of outstanding payables due to Zitomlin, the milling company of the EPH group, into 33.3% of the share capital of BPI, Klas's operating subsidiary, in a further effort to stabilize the group's cashflow, and improve its working capital position.

Capital Market Developments

BET-EUR, SOFIX and BELEX-15: 1 year performance



Commentary

During the fourth quarter, the Romanian BET index fell by 2.1%, whilst the Bulgarian SOFIX and the Serbian BELEX-15 indices increased by 4.2% and 1.0%, respectively, all in euro terms. By comparison, over the same quarter, the MSCI Emerging Market Eastern Europe index lost 3.8%, while the MSCI Emerging Market, the FTSE100 and the S&P indices were up by 3.2%, 3.2% and 9.5%, respectively, all in euro terms.

Over 2015, the BET, the BELEX-15 and the SOFIX indices fell by 2.1%, 3.6% and 11.7%, respectively, all in euro terms. By comparison, the MSCI Emerging Market index lost 7.5%, while the MSCI Emerging Market Eastern Europe, the FTSE100 and the S&P indices were up by 2.3%, 0.1% and 10.5%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	3.7%	FY15	3.0%	FY15	0.8%	Dec-15
Inflation (y-o-y)	-0.9%	Dec-15	-0.4%	Dec-15	1.5%	Dec-15
Ind. prod. growth (y-o-y)	2.2%	Dec-15	1.6%	Dec-15	11.7%	Nov-15
Trade balance (EUR bn)	-8.4	FY15	-1.9	FY15	-2.7	10M 15
y-o-y	*38.0%*		*-31.1%*		*30.8%*	
FDI (EUR bn)	3.0	FY15	1.6	FY15	1.4	10M 15
y-o-y change	*6.6%*		*22.5%*		*17.7%*	
Total external debt/GDP	57.2%	Dec-15	76.5%	Dec-15	79.2%	Sep-15
Reserves to short-term debt	162.5%	Dec-15	256.6%	Dec-15	400.4%	Dec-15
Loans-to-deposits	85.8%	Dec-15	80.2%	Dec-15	109.9%	Dec-15
Public sector debt-to-GDP	39.2%	Dec-15	26.4%	Dec-15	74.3%	Nov-15

Commentary

Romania

Romania's fourth quarter GDP grew by 3.8% year-on-year, and by 1.1% compared to the previous quarter. Overall, GDP grew by 3.7% in 2015. The reported growth is slightly higher than the latest forecast of the European Commission, which, in its winter 2015 report, expected 3.6% year-on-year growth. The growth was triggered by increased private consumption due to lower taxes and higher wages (as at December 2015, the average net wage was up 13.3% year-on-year). The European Commission is forecasting 4.2% GDP annual growth in 2016, with domestic demand remaining the most important growth driver.

The reduction in the VAT rate on basic foodstuffs from 24% to 9% in June, as well as falling global oil prices, resulted in a 0.9% year-on-year fall in prices in December. This compares with an inflation rate of 0.8% at the end of 2014. The National Bank of Romania ("NBR") is forecasting an inflation rate of 1.4% by December 2016, mainly driven by higher domestic demand due to the recent reduction in the standard VAT rate from 24% to 20%, together with a fall of approximately 12% in energy distribution prices imposed by the Romanian authorities, both measures effective from January 2016.

The divergent monetary policies of the FED and the European Central Bank, led to currency instability in the region with all regional currencies experiencing higher volatility in the fourth quarter. The Romanian leu lost 2.4% against the euro over the fourth quarter, and was down 0.9% against the euro over the year.

In 2015, the budget deficit came in at €2.3bn, down 9.8% year-on-year and equivalent to 1.47% of GDP, which was lower than the Government's target budget deficit of 1.85% of GDP. Budgetary receipts increased by 9.0% year-on-year, mainly triggered by VAT collections, which account for 24.5% of total budgetary receipts, increasing by 12.3% year-on-year, whilst total expenses increased by 8.0%. For 2016, the Government is targeting a budget deficit of €4.6bn, or 2.73% of GDP (2.8% on a cash basis), mainly due to the recent fiscal relaxation measures. The planned deficit will be put to the test by the local and parliamentary elections scheduled for this autumn. In 2015, the pace of EU transfers to Romania accelerated: the absorption of €19.2bn of available EU funds for the period 2007-2013 (which was extended to 2015) grew from 51.8% at the end of 2014 to 74% at the end of 2015.

With domestic demand increasing, the 2015 trade deficit worsened by 38.0% year-on-year (from €-6.0bn to €-8.4bn), with exports increasing by only 4.1% whilst imports grew by 7.6%. The 2015 current account balance was negative by €1.8bn (or the equivalent of 1.1% of GDP), compared to a deficit of €-0.7bn over 2014, while FDI inflows amounted to €3bn, up from €2.4bn in 2014.

Romania's total external debt was €90.9bn at the end of December, which represents a 3.7% fall over the year and amounts to approximately 57% of GDP. Total public debt was €60bn, or 38.5% of GDP, at the end of November, down from 39.8% at the end of 2014.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.1bn at the end of December, and was up 2.8% over the year in RON terms. The balance of loans in domestic currency was higher than those in foreign currencies, with the former accounting for 50.7% of the total loan stock at the end of December, compared to 43.6% at the end of 2014, having increased by 19.7% over the year. Helped by low interest rates, household loans increased by 5.7% year-on-year and accounted for 49.6% of the total loan stock at the end of 2015, compared to 48.0% at the end of 2014. The overall deposit base increased by 9.3% in RON terms over the year, and amounted to €56bn at the end of 2015. The NPL ratio was 11.7% at the end of November, down from 13.9% at the end of 2014.

Bulgaria

Bulgaria's fourth quarter GDP grew by 3.0% year-on-year, and by 0.7% compared to the previous quarter. Overall, GDP grew by 3.0% in 2015. In its winter report, the European Commission forecasts GDP will grow by 1.5% in 2016, mainly due to higher exports, with private consumption remaining subdued.

Mainly due to falling commodity prices, Bulgaria recorded a 0.4% year-on-year fall in prices in December 2015, compared to a 0.9% year-on-year fall in December 2014.

In 2015, Bulgaria ran a budget deficit of €1.3bn, or 3.0% of GDP, in line with the government's revised target. The 2014 budget deficit was 5.8% of GDP, triggered by the inclusion towards the end of the year of the payouts by the Deposit Insurance Fund to depositors of the troubled Corporate Commercial Bank. In 2015, tax revenues grew by 9.5% (from €15.0bn to €16.5bn), whilst total budgetary expenses grew by 7.1% (from €16.1bn to €17.2bn). For 2016, the government is targeting a budget deficit of 2.0% of GDP. By the end of 2015, Bulgaria had managed to absorb 85.0% of the €6.9bn of EU funds allocated to it under the EU's 2007-2013 programme (which was extended to 2015). Bulgaria's public sector debt was 26.4% of GDP at the end of December, unchanged from the end of 2014. Debt denominated in euros accounted for 76% of total public debt, with the balance of 23% being denominated in Bulgarian leva.

Bulgaria's trade balance improved from a deficit of €2.7bn in 2014 to a deficit of €1.9bn in 2015. Exports experienced 5.9% year-on-year growth, whilst imports grew by just 1.7%. Helped by a €2.6bn surplus from services, the current account balance was €0.5bn in surplus, or 1.2% of GDP, unchanged year-on-year. FDI inflows were €1.6bn, the highest amount of the last five years, and 22.5% higher than in 2014. The increase was due to higher equity investments which more than doubled from €0.7bn to €1.8bn, whilst intra-group loans fell by €0.7bn.

The Bulgarian banking system's loans to non-financial institutions continued to fall in 2015, and amounted to €24.9bn at the end of December, which was 1.5% lower than at the end of 2014. However, the deposit base grew by 11.4%, from €27.9bn at the end of 2014 to €31.1bn at the end of 2015. Overdue loans accounted for 22.6% of total loans at the end of December.

Serbia

In its latest report, the National Bank of Serbia estimates that the country's GDP grew by 0.8% in 2015, reversing the negative performance of 2014, which had been negatively affected by widespread flooding. The positive trend is expected to accelerate to 1.8% in 2016, driven primarily by the ongoing monetary policy relaxation and the recovery in external demand.

Industrial growth in all sectors has been encouraging. It averaged 11% year-on-year to November 2015, with particularly strong performances from the mining (+23%), energy (+31%), chemicals (+30%) and basic metals (+16%) sectors. Inflationary pressures have been low, with annualized inflation falling to a mere 1.5% (compared to 1.7% in 2014). For the second year in a row, inflation has been below the target range of 4% +/- 1.5%, which is a direct consequence of the significant fall in oil and commodity prices as well as the reduction in the public sector deficit from 6.6% of GDP to 3.7% in the eleven months to November 2015.

2015 has also seen the relaxation of the central bank's monetary policy, with successive cuts in the key policy rate amounting to a total of 350 basis points, bringing it to 4.5%. This has continued into 2016 with a further reduction in February by 25 basis points to 4.25%. Bank lending has now started to show the first signs of growth, with a 1.2% increase in loans granted in November 2015.

The improvement in the main macro-economic indicators and continued exchange rate stability (the Serbian Dinar depreciated by less than 0.55% against the Euro over 2015) led to the recent reaffirmation of Serbia's credit ratings. Fitch confirmed its rating of B+ in December 2015 with a revised outlook from stable to positive, and S&P confirmed its rating of BB- in January 2016 with a revised outlook from negative to stable.

It is expected that early parliamentary elections will be held in April 2016, as the government wishes to capitalize on its current levels of support. Despite having reduced state pensions and salaries by 15% in 2015, the government still has to tackle the problems of loss-making state-owned enterprises and downsizing the public sector. These were identified as key actions in the IMF precautionary stand-by agreement, and present the main economic challenges for the Serbian government in 2016.

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