Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2015

neweuropecapital

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Statistics

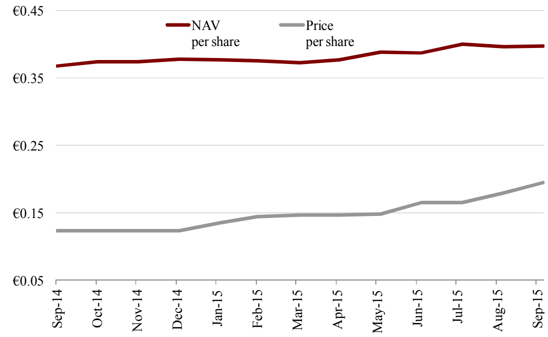
NAV per share (€) - undiluted	0.3970
NAV per share (€) - fully diluted	0.2975
Total NAV (€ m) - undiluted	39.7
Total NAV (€ m) - fully diluted	48.4
Share price (€)	0.1950
Mk Cap (€ m)	19.5
# of shares (m) - undiluted	100.0
# of shares (m) - fully diluted	162.6
NAV return since inception†	-58.50%
12-month NAV CAGR†	8.19%
NAV annualized Return*†	-8.62%
NAV annualized Volatility*†	19.24%
Best month (NAV)†	15.60%
Worst month (NAV)†	-33.53%
# of months up (NAV)†	62
# of months down (NAV)†	55

*† undiluted basis * since inception*

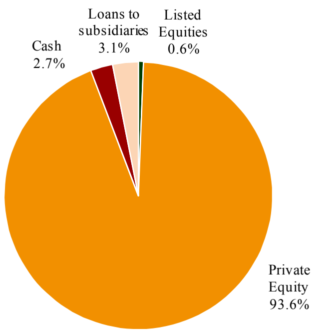
RC2 NAV returns (undiluted basis)

	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%	
Nov	-0.25%	-0.36%	0.43%	0.15%	
Dec	-0.49%	0.29%	-16.44%	0.73%	
YTD	3.32%	-17.17%	-62.64%	14.91%	5.27%

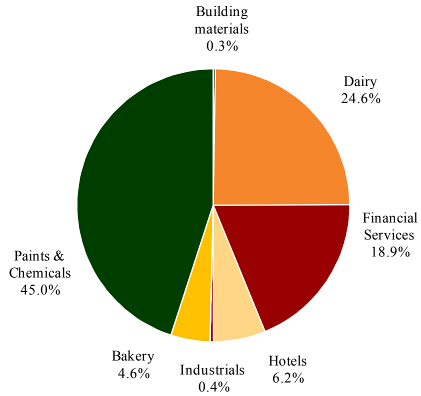
Share price / undiluted NAV per share (€)



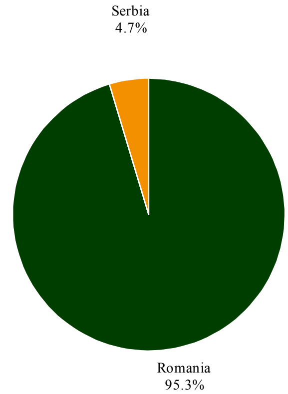
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Adviser

Dear Shareholders

Over the third quarter of 2015, RC2's NAV per share increased by 2.67% from €0.3867 to €0.3970, both on an undiluted basis.

Whilst Policolor's overall nine-month EBITDA figure was in line with the same period last year, Albalact, Top Factoring and Mamaia Resort Hotels posted substantially improved results, with their nine-month EBITDA's increasing by 74%, 28%, and 65% respectively. Klas continued to make heavy losses, but its nine-month EBITDA loss shrank by 24% compared to the same period last year.

In the third quarter, RC2 signed an agreement with the local management of East Point Holdings ("EPH") for the sale of its remaining 43.67% equity stake in that company, together with €2.5m of loan receivables from an EPH subsidiary. As consideration, RC2 received €0.2m in October for its equity stake and is scheduled to receive a further €0.3m for its loan receivable in May 2016. Both the equity stake and the loan receivable had previously been written down to zero.

A contract for the sale of Klas's former production facility at Juzni Bulevar was signed in September. The purchaser has made an initial down-payment of €0.2m, with the balance of €2.2m due by the end of the year.

At the end of the quarter, the Fund had cash and cash equivalents of approximately €1.2m, compared to €0.9m at the end of June. The increase is primarily due to the receipt of dividends from Albalact, less operational expenses for the quarter.

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)	2013*	2014*	2015B	9M14**	9M15**	9M15B
Consolidated Income statement (according to IFRS)						
Total operating revenues	**54,150**	**52,839**	**65,552**	**44,668**	**47,338**	**53,810**
Total operating expenses	**(55,935)**	**(55,549)**	**(63,993)**	**(43,313)**	**(45,986)**	**(51,660)**
Operating profit	**(224)**	**(1,642)**	**1,559**	**1,355**	**1,352**	**2,150**
Operating margin	*neg.*	*neg.*	*2.4%*	*3.0%*	*2.9%*	*4.0%*
Recurring EBITDA	3,055	2,438	4,271	3,956	4,036	4,889
Non-recurring EBITDA		(563)	1,000	(61)	(120)	(52)
Total EBITDA	**3,055**	**1,875**	**5,271**	**3,895**	**3,916**	**4,837**
EBITDA margin	*5.6%*	*3.5%*	*8.0%*	*8.7%*	*8.3%*	*9.0%*
Net extraordinary result (land sale)			10,891	(80)	(181)	(235)
Financial Profit/(Loss)	(983)	(957)	(2,009)	(666)	(21)	(524)
Profit before tax	**(1,207)**	**(2,600)**	**10,441**	**609**	**1,150**	**1,391**
Income tax	(178)	114	(2,654)	(118)	(4)	(100)
Profit after tax	**(1,385)**	**(2,486)**	**7,788**	**491**	**1,146**	**1,291**
Minority interest	106	48				
Profit for the year	**(1,279)**	**(2,438)**	**7,788**			
avg exchange rate (RON/EUR)	*4.45*	*4.45*	*4.50*	*4.44*	*4.44*	*4.45*

*Note: * audited, ** unaudited*

The Group's 2015 nine month consolidated operating revenues were €47.3m, 12% below budget but 6% above the same period of 2014. The underachievement of the budget was mainly due to lower than expected sales at both the Bulgarian anhydrides division and the Romanian automotive coatings division.

Overall paints and coatings sales grew by 9.4% year-on-year during the first nine months, whilst Orgachim Resins' first nine months sales of €10.5m were 31.7% over budget and 73% higher than the same period of the prior year. Production at the anhydrides plant re-started in mid-May, but closed in August for a couple of weeks for maintenance works. The division managed to generate sales of €6.2m over January to September, 23% below the same period of 2014.

Operations

Management has finalized a portfolio restructuring and optimisation at the paints and coatings division, and has continued to pursue efforts to better address the market in each region either by creating Policolor's own direct distribution network or by improving its distributors' performance.

As part of a wider investigation into the Romanian coatings industry, a number of leading players were fined for anti-competitive practices, including Policolor and its distributors. The Romanian Competition Council concluded that Policolor's contracts with its distributors had contained certain anti-competitive provisions up to 2011, when the relevant provisions were removed. Consequently, in November Policolor was awarded a fine of approximately €340,000. Because this had already been provided for in the 2014 accounts, there is no impact on the 2015 income statement.

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	2013*	2014*	2015B	9M14**	9M15**	9M15B
Combined Group Income Statement						
Gross revenues	**9,753**	**12,354**	**12,559**	**8,992**	**10,222**	**9,444**
Amortization and fair value adjustments of debt portfolios	(3,303)	(4,207)	(5,533)	(2,757)	(2,775)	(4,238)
Total Net revenues	**6,451**	**8,147**	**7,027**	**6,235**	**7,446**	**5,206**
Debt Portfolios	5,409	7,252	6,269	5,602	6,774	4,635
Agency agreements	1,041	894	757	632	673	571
EBITDA	**2,612**	**3,587**	**1,701**	**3,051**	**3,900**	**1,244**
EBITDA margin	*40.5%*	*44.0%*	*24.2%*	*48.9%*	*52.4%*	*23.9%*
Profit after tax	1,898	2,347	1,048	2,551	3,338	720
Net Margin	*29.4%*	*28.8%*	*14.9%*	*40.9%*	*44.8%*	*13.8%*
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.42*	*4.44*	*4.44*	*4.42*

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

The 2015 nine-month gross revenues (made up of gross collections on proprietary portfolios and agency revenues) amounted to €10.2m, up 13.7% year-on-year and 8.2% above budget.

Pursuant to its September quarterly impairment test, the Group booked a write-up of €0.7m due to better than expected collections on proprietary portfolios over the quarter. The Group has now booked a total of €2.8m of write-ups over the first nine months of 2015, contributing to an excellent EBITDA result of €3.9m, which is higher than the 2015 full year budget target of €1.7m.

Over the first nine months, the debt purchase line accounted for 91% of net operating revenues. The agency business generated revenues of €0.67m, up 6.5% year-on-year, which is particularly satisfying given the increased number of competitors on the debt collection market.

Operations

Glasro invested €4.2m in new portfolios over the first nine months of 2015, financed by a combination of bank loans and the company's own resources. Gross collections from proprietary portfolios increased from €8.4m in the first nine months of 2014 to €9.6m. The legal department, which mainly works on banking cases, has continued its upward trend, generating 28% of overall collections during January to September, compared to 20% in the same period of 2014. The share of collections generated by the field department also increased, from 10% to 13%. The balance of 59% was collected by the call centre.

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 5.6% over the quarter, the value of RC2's shareholding increased from €10.7m as at 30 June 2015 to €11.3m as at 30 September 2015.

Financial results

EUR '000	2013*	2014*	2015B	9M14**	9M15**
Consolidated Income Statement					
Sales Revenues	**87,270**	**91,826**	**94,259**	**69,913**	**70,207**
Total Operating Revenues	**87,502**	**94,807**	**94,259**	**70,192**	**70,482**
Total Operating Expenses	(85,410)	(93,490)		(69,623)	(67,468)
Operating Profit	**2,092**	**1,317**		**568**	**3,014**
Operating margin	*2.4%*	*1.4%*		*0.8%*	*4.3%*
EBITDA	**5,834**	**6,040**	**6,966**	**3,977**	**6,936**
EBITDA margin	*6.7%*	*6.4%*	*6.1%*	*5.7%*	*9.8%*
Profit before Tax	**1,346**	**360**		**320**	**2,925**
Income Tax	(238)	(177)		(259)	(677)
Profit after Tax	**1,107**	**183**		**61**	**2,248**
Minority Interest	3	11		(8)	291
Profit for the year	1,110	194		52	2,539
Net margin	*1.3%*	*0.2%*			
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.45*	*4.44*	*4.44*

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

Albalact generated nine month sales of €70.2m, virtually unchanged year-on-year, but its EBITDA grew by 74%, reaching €6.9m, triggered by lower raw material prices as well as a better sales mix which is tilted towards higher value added products such as yoghurts.

In May, Albalact adopted IFRS accounting (which excludes from sales both intra-group sales and contractual discounts to clients), for its reporting to the local stock exchange. In order to reflect this change, the shareholders decided at a meeting held in October to revise the 2015 sales target downwards to €94.3m,

Operations

As part of its efforts to grow its product portfolio, Albalact has launched a new family of products specifically designed for the HORECA channel (hotels, restaurants and catering); it has repositioned and extended its traditional *De Albalact* brand; and it has re-launched its premium *Zuzu Max* yoghurt range.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia 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)	2013*	2014*	2015B	9M14**	9M15**	9M15B
Income Statement						
Total Operating Revenues	**1,931**	**2,045**	**2,129**	**1,898**	**2,231**	**2,032**
Total Operating Expenses	(1,714)	(2,106)	(1,923)	(1,601)	(1,631)	(1,592)
Operating Profit	**217**	**(61)**	**207**	**297**	**600**	**440**
Operating margin	*11.2%*	*neg.*	*9.7%*	*15.6%*	*26.9%*	*21.6%*
EBITDA	**422**	**253**	**487**	**445**	**736**	**650**
EBITDA margin	*21.9%*	*12.4%*	*22.9%*	*23.5%*	*33.0%*	*32.0%*
Profit after Tax	**103**	**(158)**	**107**	**240**	**538**	**363**
Net margin	*5.4%*	*neg.*	*5.0%*	*12.7%*	*24.1%*	*17.9%*
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.45*	*4.44*	*4.44*	*4.45*

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

The Hotel has delivered a strong performance over the summer season, with its nine month sales of €2.2m, up 17.5% year-on-year and 9.8% above budget, mainly to due to an excellent performance from the food & beverage department. Food & beverage sales amounted to €1m, up 30% year-on-year, and accounted for 47% of overall sales. Accommodation revenues of €1.1m were up 7% year-on-year, and accounted for 48% of sales. 64% of accommodation revenues were generated by agency bookings, 15% were generated from "walk-ins", and 12% by corporate contracts, with the balance of 9% being generated by booking websites.

The nine month EBITDA was €736,000, 13.3% above budget and 65% higher than the 2014 nine month result. Due to low revenues in the fourth quarter, management expects the full year EBITDA to fall to approximately €550,000, which is still higher than the budgeted €487,000.

Operations

The occupancy rate for the January-September 2015 period was 31.4%, slightly below the 32.6% achieved over the same period last year. Over the high season (July-August), the occupancy rate reached 79%, which was unchanged year-on-year.

The Company has started building a spa facility at the end of October, which is being 80% financed by a bank loan. The facility should be fully functional by the spring of next year and should help the Company increase its revenues in the off-season months.

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 June 2015 the value of RC2's equity investment was impaired by €0.5m to €2.1m to reflect a lower valuation of Juzni Bulevar, the company's main real estate asset. RC2 also had €1.5m of a shareholder loan (including accrued interest), outstanding as at 30 September.

Financial results and operations

EUR'000	2013*	2014*	2015B	9M14**	9M15**
Income Statement					
Net sales	**14,593**	**10,654**	**8,299**	**8,004**	**3,732**
EBITDA	**(2,078)**	**(2,266)**	**(388)**	**(1,126)**	**(855)**
EBITDA margin	*-14.2%*	*-21.3%*	*-4.7%*	*-14.1%*	*-22.9%*
Profit after tax	**(4,812)**	**(2,826)**	**(1,664)**	**(2,204)**	**(1,321)**
Net margin	*-33.0%*	*-26.5%*	*-20.1%*	*-27.5%*	*-35.4%*

*Note: * audited ** management accounts*

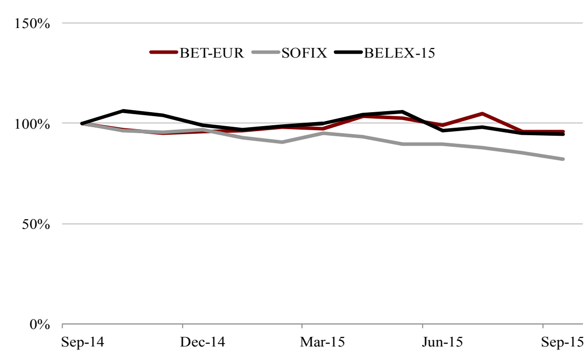
Although nine month sales were down 53% year-on-year, sales volumes stabilized during the third quarter, with daily production increasing from 32 tons to 34 tons. Similarly, although the year-to-date EBITDA was a negative €-0.86m, the monthly EBITDA losses have improved significantly from €0.2m in January to just €0.04m in September. This gives management confidence that break-even can be achieved during the last quarter of the year.

A contract for the sale of Klas's former production facility at Juzni Bulevar was signed in September. The purchaser has made an initial down-payment of €0.2m, with the balance of €2.2m due by the end of the year. €1.8m of the proceeds are to be used to repay bank loans, €0.2m to fund working capital, and the balance of €0.4m is due to DEG under the terms of the existing Shareholders' Agreement. DEG is, in turn, due to transfer its shares to the Company for cancellation, resulting in RC2's shareholding increasing to 63%.

The sale of Juzni Bulevar will allow the Company to concentrate all its production at its Zemun site. Work is already underway for the installation of a chilled and frozen products line, as well as machinery for the production of bread crumbs. This is scheduled for completion in November.

Capital Market Developments

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



Commentary

During the third quarter, the Romanian BET, the Bulgarian SOFIX and the Serbian BELEX-15 indices fell by 3%, 8.9% and 2.2%, respectively, all in euro terms. By comparison, over the same quarter, the MSCI Emerging Market Eastern Europe index fell by 15.1%, the MSCI Emerging Market index was down 18.7%, and the FTSE100 and S&P indices fell by 10.8% and 7.2%, respectively, all in euro terms.

Over the year, the BET, the BELEX-15 and the SOFIX indices were also down, by 4.1%, 5.6% and 18.1%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	3.7%	9M15	2.7%	6M15	1.3%	Sep-15
Inflation (y-o-y)	-1.6%	Oct-15	-0.6%	Oct-15	1.4%	Sep-15
Ind. prod. growth (y-o-y)	3.4%	Sep-15	0.6%	Sep-15	12.9%	Aug-15
Trade balance (EUR bn)	-5.5	9M15	-1.2	9M15	-2.1	8M 15
y-o-y	*28.6%*		*-41.0%*		*9.0%*	
FDI (EUR bn)	2.5	9M15	1.1	9M15	1.1	8M 15
y-o-y change	*66.4%*		*26.3%*		*37.5%*	
Total external debt/GDP	55.9%	Sep-15	82.2%	Aug-15	79.8%	Jun-15
Reserves to short-term debt	147.9%	Sep-15	253.0%	Aug-15	397.4%	Sep-15
Loans-to-deposits	92.2%	Sep-15	84.9%	Sep-15	112.3%	Sep-15
Public sector debt-to-GDP	37.6%	Aug-15	26.7%	Sep-15	72.4%	Sep-15

Commentary

Romania

Romania had the second highest economic growth in the EU during the third quarter, with its GDP increasing by 3.6% year-on-year, whilst the euro area's GDP increased by 1.6%. Overall, GDP grew by 3.7% year-on-year during the first nine months of 2015. In its autumn 2015 report, the European Commission expects Romania's 2015 GDP to grow by 3.5% year-on-year, triggered by increased private consumption as a result of higher household disposable income.

Tax cuts as well as falling oil prices led to a 1.6% year-on-year fall in prices in October. Consequently, the National Bank of Romania ("NBR") reduced its 2015 inflation rate projection from -0.3% to -0.7%. The Romanian leu gained 1.3% against the euro over the third quarter, and was up 1.5% against the euro since the beginning of the year.

Over the first nine months of 2015, Romania achieved a budget surplus of €1.4bn, equivalent to 0.87% of GDP, compared to a 0.06% surplus over the same period of 2014. Budgetary receipts increased by 8.8% year-on-year, mainly triggered by higher VAT collections. VAT collections made up 25% of total budgetary receipts and increased by 12.5% year-on-year. Total budgetary expenses increased by 5.1% year-on-year, with personnel and social expenditures (which accounted for 58% of total expenses) increasing by 6.2%. The Romanian parliament has recently approved a 10% salary increase for all state employees effective from 1 December. The budget surplus was realized at the expense of low capital expenditure, which fell by 6% year-on-year from €1.82bn to €1.71bn.

Over the first nine months, the trade deficit grew by 28.6% year-on-year (from €-4.3bn to €-5.5bn), as exports increased by only 4.7% whilst imports grew by 7.1%. The negative evolution of both trade balance and the balance of revenues (€-2.3bn) was only partially compensated by surpluses from services (+€4.7bn) and current transfers (+€2.0bn). Overall, the current account balance was negative at €-0.7bn, compared to a deficit of €-1.2bn over the same period last year. FDI inflows amounted to €2.5bn, up from €1.5bn over the same period of 2014, as both equity investments and intra-group loans increased by €800m and €193m, respectively.

Romania's total external debt was €89.3bn at the end of September, -5.8% year-to-date and the equivalent of 55.9% of GDP. The total public debt was 37.6% of GDP at the end of August, down from 39.8% at the end of 2014, as Romania reimbursed €1.4bn of its €12.4bn loan from the IMF earlier this year. The IMF loan matures in March 2016, with a further €690m to be reimbursed on maturity.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.5bn at the end of September, and was up 1.3% year-to-date in RON terms. The overall deposit base increased by only 0.3% year-to-date in RON terms, and amounted to €52.7bn at the end of September. For the first time in 8 years, the balance of loans in domestic currency is higher than those in foreign currencies, with the former accounting for 50.2% of the total loan stock at the end of September, compared to 43.8% at the end of 2014, having increased by 16.3% year-to-date. The NPL ratio was 12.6% at the end of August, down from 13.9% at the end of 2014.

Following massive protests triggered by a deadly nightclub fire in Bucharest whose causes were linked to endemic corruption, Prime Minister Victor Ponta resigned at the beginning of November. President Klaus Iohannis has asked former EU Agriculture Commissioner Dacian Ciolos to form a new non-political government made up of technocrats.

Bulgaria

Bulgaria's third quarter GDP grew by 2.9% year-on-year and by 0.7% quarter-on-quarter. Details regarding the January to September 2015 year-on-year growth as well as the sources of the third quarter GDP growth have not yet been disclosed by the Bulgarian National Statistics Institute. In its autumn report, the European Commission forecasts Bulgaria's 2015 GDP to grow by 1.7% year-on-year, triggered by higher exports. Bulgaria's industrial production grew by 0.6% year-on-year in September.

Bulgaria recorded a 0.6% year-on-year fall in prices in October, compared to a 0.9% year-on-year fall in December 2014.

Over the first nine months of 2015, Bulgaria achieved a budget surplus of €0.32bn, or 0.7% of GDP, which compares to a 1.8% GDP budget deficit recorded during the same period of 2014. The surplus was triggered by a 12% increase in tax revenues (from €11bn to €12.3bn), whilst total budgetary expenses grew by only 2.5% (from €11.4bn to €11.7bn). The Ministry of Finance has recently revised its estimate for the 2015 budget deficit to 3.3% of GDP on a cash basis, up from 3.0% as initially planned. However, on an accruals basis, the budget gap is not expected to exceed 3.0% of GDP. The 2014 budget deficit amounted to 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.

Bulgaria's public sector debt was 26.7% of GDP at the end of September, down from 27.9% at the end of the previous quarter. Debt denominated in euros accounted for almost 80% of total public debt, with 20% denominated in Bulgarian leva.

Bulgaria's trade balance improved from a deficit of €2bn over the first nine months of 2014, to a deficit of €1.2bn over the same period this year. Exports recorded a 7.5% year-on-year increase, whilst imports grew by just 1.9%. Overall, the current account posted a €1.4bn surplus, or 3.2% of GDP, compared to a 2.4% surplus over the same period of 2014. FDI inflows were €1.1bn over the period, up 26.3% compared to the same period of 2014. The increase is due to higher equity investments which more than doubled from €0.5bn to €1.2bn, with intra-group loans falling by €50.9m.

The Bulgarian banking system's loans to non-financial institutions fell by 0.4% year-to-date, and amounted to €25.2bn at the end of September. The deposit base increased by just 0.5% from €29.5bn at the end of December to €29.6bn at the end of September. Overdue loans accounted for 23.6% of total loans at the end of September. In order to check the financial condition of the Bulgarian banking system, the National Bank of Bulgaria has contracted the consultancy firm Deloitte to perform stress tests on 22 of the 28 banks operating in Bulgaria. The branches of foreign institutions are not included in the exercise.

Serbia

The Serbian economy continued to perform well in the third quarter, with GDP growth estimated at 1.3% by the National Bank of Serbia (NBS). The country has now overcome the effects of last year's disastrous floods, with industrial production up 12.9% year-on-year after posting a decline of 6.5% in 2014.

Both exports and imports have shown solid year-on-year growth of 9% and 5.9%, respectively. Fiat vehicles remain the dominant component of exports, although non-ferrous metals, iron and steel, and the chemical and tobacco sectors are increasingly adding to exports. This is in part due to the positive impact of FDI inflows into these sectors.

FDI amounted to €1.1bn over the first nine months to September, which is almost the same as for the whole of 2014. This positive trend could be further strengthened, inter alia, by the new property conversion law and the proposed privatisation/bankruptcy of over 500 state-owned enterprises.

The NBS continues to relax monetary policy, with 2 further cuts in its key lending rate, each of 50bps, bringing the rate to 5 per cent in September. This decision was influenced both by low inflationary pressures (annual inflation was 1.4% in September) and a desire to stimulate bank lending. However, banks are still reluctant to lend, as long as the effective implementation of the new bankruptcy law is still pending, and total NPLs still amounting to 29% of banks' capital reserves at the end of August.

The Serbian Dinar was virtually unchanged against the Euro during the third quarter, compared to a depreciation of 0.3% over the second quarter. The NBS has sought to maintain exchange rate stability by purchasing Euros (almost €750m) to counteract the effects of an appreciating currency due to the improved macro-economic environment.

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