Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2016

neweuropecapital

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Statistics

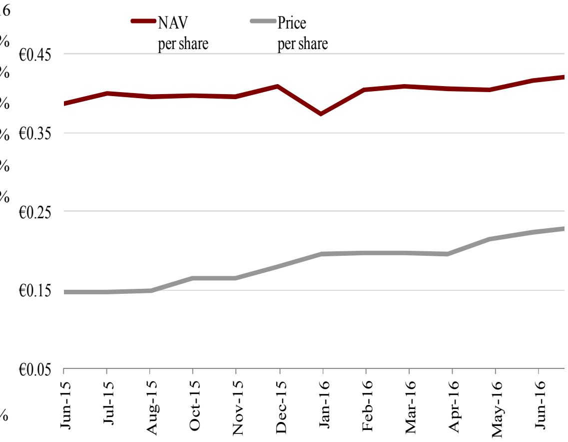
NAV per share (€) - undiluted	0.4212
NAV per share (€) - fully diluted	0.3118
Total NAV (€ m) - undiluted	38.7
Total NAV (€ m) - fully diluted	48.2
Share price (€)	0.2088
Mk Cap (€ m)	19.2
# of shares (m) - undiluted	91.9
# of shares (m) - fully diluted	154.6
NAV return since inception†	-55.97%
12-month NAV CAGR†	11.89%
NAV annualized Return*†	-7.51%
NAV annualized Volatility*†	18.97%
Best month (NAV)†	15.60%
Worst month (NAV)†	-33.53%
# of months up (NAV)†	67
# of months down (NAV)†	59

*† undiluted basis * since inception*

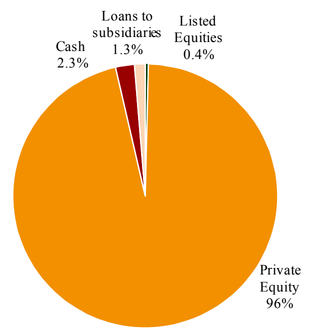
RC2 NAV returns (undiluted basis)

	2012	2013	2014	2015	2016
Jan	0.12%	-31.58%	-0.65%	-0.07%	8.03%
Feb	-9.69%	-0.51%	-0.34%	-0.34%	1.22%
Mar	-0.50%	-0.62%	2.94%	-0.70%	-0.66%
Apr	-0.66%	0.29%	2.73%	0.93%	-0.49%
May	-4.98%	-33.53%	2.70%	3.11%	3.09%
Jun	-1.47%	-0.85%	0.28%	-0.38%	1.18%
Jul	-0.73%	-0.28%	0.44%	3.24%	
Aug	0.61%	1.27%	3.23%	-0.85%	
Sep	0.01%	-0.69%	0.01%	0.31%	
Oct	-0.82%	-0.72%	1.87%	-0.35%	
Nov	-0.36%	0.43%	0.15%	3.17%	
Dec	0.29%	-16.44%	0.73%	-8.47%	
YTD	-17.17%	-62.64%	14.91%	-0.94%	12.74%

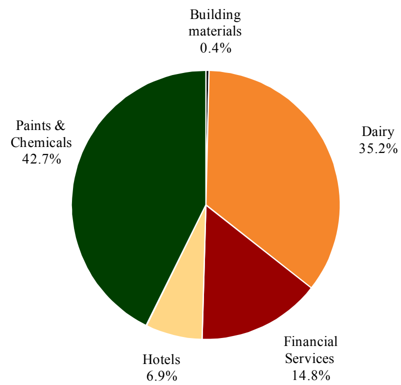
Share price / undiluted NAV per share (€)



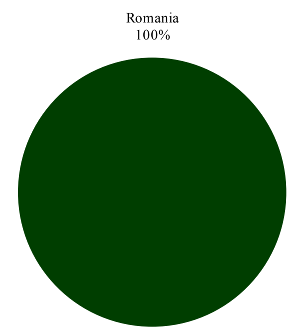
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Adviser

Dear Shareholders

During the second quarter, RC2's NAV per share increased by 3.79% from €0.4058 to €0.4212, both on an undiluted basis.

Over the quarter, RC2 worked closely with Lactalis to fulfil a number of conditions precedent related to the sale of Albalact, with all parties acknowledging that all the conditions for the sale were finally met on the 8 July, and the Romanian Financial Services Authority finally authorizing Lactalis' tender offer for the purchase of Albalact shares at a price of RON 0.5252 per share on 3 August. The offer should close on the 14 September, resulting in estimated proceeds for RC2 of approximately RON 87.2mm shortly thereafter. Meanwhile, Albalact continued its stellar performance, with first semester sales up 15.7% on the same period of last year, and EBITDA up 54% to €6.9m.

Policolor has been continuing negotiations on its aborted land sale due to the default of the buyers who had paid a deposit of €3.0m, and is working hard on finding a definitive solution. Meanwhile, Policolor's sales were approximately € 2m short of budget, which was primarily due to the anhydrides plant not operating during the period, but core sales of paints having grown a healthy 13.6%, the Group's EBITDA of approximately €1.0m was significantly above budget.

Top Factoring continued its excellent performance, with higher than expected collections on its portfolios resulting in first semester EBITDA of €3.3m, compared to €2.8m over the same semester of the prior year.

Mamaia Resort Hotels' first semester operations are relatively low compared to the second half, which includes the busy summer season, and the Hotel suffered from bad weather in May, resulting in slightly lower than budget sales of €0.5m, and an EBITDA loss of € 0.2m. However, the Hotel is already experiencing a busy summer season and has good chances of meeting its budget for the year.

Klas's was only slightly off budget in terms of sales during the first semester, suggesting that the business has stabilized after the steep falls during its restructuring process. The EBITDA loss of € 0.26m, although above budget, was also a great improvement on the EBITDA loss of € 0.94m suffered during the same semester of last year. The company must now focus on increasing volumes to absorb its already reduced cost-base.

At the end of the quarter, 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*	2015**	2016B	1H15**	1H16**	1H16B
Consolidated Income statement (according to IFRS)						
Sales revenues	**53,655**	**57,045**	**64,937**	**28,594**	**30,006**	**32,045**
Other operating revenues	252	336		140	41	124
Total operating revenues	**53,907**	**57,381**	**64,937**	**28,734**	**30,047**	**32,169**
Total operating expenses	**(55,549)**	**(59,047)**	**(65,748)**	**(29,509)**	**(30,678)**	**(33,761)**
Operating profit	**(1,642)**	**(1,666)**	**(810)**	**(775)**	**(631)**	**(1,592)**
Operating margin	*neg.*	*neg.*	*neg*	*neg*	*neg*	*neg*
Recurring EBITDA	2,438	1,957	1,806	1,320	1,001	275
Non-recurring expenses	(563)	(286)	(125)	(250)	(14)	(130)
Total EBITDA	**1,875**	**1,671**	**1,681**	**1,070**	**987**	**145**
EBITDA margin	*3.5%*	*2.9%*	*2.6%*	*3.7%*	*3.3%*	*0.5%*
Net extraordinary result		441				
Financial Profit/(Loss)	(958)	(1,027)	(855)	(465)	(474)	(458)
Profit before tax	**(2,600)**	**(2,693)**	**(1,665)**	**(1,240)**	**(1,105)**	**(2,050)**
Income tax	114	(31)		-	(366)	-
Profit after tax	**(2,486)**	**(2,724)**	**(1,665)**	**(1,240)**	**(1,471)**	**(2,050)**
Minority interest	48					
Profit for the year	**(2,438)**	**(2,724)**	**(1,665)**	**(1,240)**	**(1,471)**	**(2,050)**
avg exchange rate (RON/EUR)	*4.45*	*4.44*	*4.50*	*4.45*	*4.50*	*4.50*

*Note: * audited, ** unaudited*

The Group generated consolidated operating revenues of €30m in the first half of 2016, 6.7% below budget but 4.6% above the same period of 2015.

The Group's consolidated results reflect a good performance by the paints and coatings and resins businesses, but a decision not to operate the anhydrides plant over the period due to the strong volatility in commodity prices. Overall, sales of paints and coatings grew by 13.6% year-on-year, whilst sales of resins were up 7.8%.

The Group generated recurring EBITDA (net of revenues and expenses allocated to the real estate division) of approximately €1m, significantly better than the budget, but virtually flat year-on-year. The EBITDA improvement compared to the budget was mainly triggered by improved cost controls.

Real Estate

Policolor has been exploring its options in relation to the real estate, including continuing negotiations with the buyers, who were unable to fulfil their contractual commitments to pay €11m by the end of 2015.

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*	2015*	2016B	1H15**	1H16**	1H16B
Combined Group Income Statement						
Net revenues	**8,147**	**10,142**	**8,828**	**5,159**	**5,558**	**6,043**
Debt purchase	7,252	8,966	8,037	4,762	5,182	5,644
gross collections	11,460	12,855	11,950	6,209	6,423	6,122
amortization and fair value adjustments of debt portfolios	(4,207)	(3,889)	(3,913)	(1,447)	(1,241)	(479)
Mandate agreements and other revenues	894	1,176	791	397	376	400
Operating expenses	**(4,560)**	**(4,901)**	**(4,848)**	**(2,350)**	**(2,260)**	**(2,344)**
EBITDA	**3,587**	**5,241**	**3,979**	**2,809**	**3,298**	**3,700**
EBITDA margin (%)	*44.0%*	*51.7%*	*45.1%*	*54.4%*	*59.3%*	*61.2%*
Depreciation	(135)	(240)	(330)	(108)	(155)	(149)
Earnings before taxes	**2,894**	**4,417**	**3,157**	**2,537**	**2,901**	**3,292**
Income tax	(547)	(625)	(410)	(317)	(231)	(412)
Net profit	**2,347**	**3,792**	**2,747**	**2,220**	**2,669**	**2,881**
Net profit margin (%)	*28.8%*	*37.4%*	*31.1%*	*43.0%*	*48.0%*	*47.7%*
Avg exchange rate (RON/EUR)	*4.445*	*4.445*	*4.450*	*4.447*	*4.495*	*4.450*

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

Gross revenues (made up of gross collections on proprietary portfolios and agency revenues from mandate agreements) amounted to €6.8m in the first half of 2016, up 2.9% year-on-year and 4.2% above budget, driven by the debt purchase line which accounted for 94% of gross operating revenues.

The March quarterly impairment test resulted in a net write up of €2.5m, reflecting higher than expected collections on existing portfolios. This was followed by a further €0.2m write-up in June.

The agency business generated revenues of €0.4m, down 5.3% year-on-year, due to Top Factoring ceasing to work on certain unprofitable contracts.

The first semester EBITDA, which takes into account the portfolio write-ups, was €3.3m, up 17.4% on last year's €2.8m. In the same period of 2015, the Group booked €2.1m of portfolio write-ups.

Operations

Glasro invested €2.4m in new portfolios over the first half of 2016, financed by a combination of bank loans and equity.

Gross collections from proprietary portfolios increased from €6.2m in the first half of 2015 to €6.4m. The share of collections generated by the field and legal departments increased to 16% and 37%, respectively, compared to 12% and 26%, respectively, in the first half of 2015, reflecting an improved ability to maximise revenues from proprietary portfolios using various collection tools. The balance of 47% was collected by the call centre.

In April, both Glasro and Top Factoring distributed part of their 2015 profits, with RC2 receiving €2m from Glasro and €0.1m from Top Factoring.

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 44.9%, with 26.4% representing the free float and 3.3% representing treasury shares acquired within a buy-back program. On 27 January 2016, RC2 and the Ciurtin family signed an agreement for the sale of their shares in the business to Lactalis, subject to the fulfilment of a number of conditions precedent, including Romanian Competition Council approval. With Albalact's market capitalization increasing by 2.3% over the quarter, the value of RC2's shareholding increased from €16.1m as at 31 March 2016 to €16.4m as 30 June 2016.

Financial results

EUR '000	2014*	2015*	2016B	1H15**	1H16**
Consolidated Income Statement					
Sales Revenues	**91,826**	**99,893**	**100,748**	**46,549**	**53,856**
Total Operating Revenues	**94,807**	**100,049**		**47,376**	**54,849**
Total Operating Expenses	(93,490)	(95,164)		(45,566)	(50,395)
Operating Profit	**1,317**	**4,885**		**1,811**	**4,453**
Operating margin	*1.4%*	*4.9%*		*3.8%*	*8.1%*
EBITDA	**6,040**	**10,056**	**10,000**	**4,483**	**6,902**
EBITDA margin	*6.4%*	*10.1%*	*9.9%*	*9.5%*	*12.6%*
Profit before Tax	**360**	**4,326**		**1,572**	**4,359**
Income Tax	(177)	(1,486)		(458)	(158)
Profit after Tax	**183**	**2,840**		**1,114**	**4,201**
Minority Interest	11	6		(6)	6
Profit for the year	194	2,846		1,120	4,195
Net margin	*0.2%*	*2.8%*		*2.4%*	*7.7%*
Avg exchange rate (RON/EUR)	*4.44*	*4.44*	*4.50*	*4.447*	*4.495*

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

Based on the consolidated financial statements, Albalact generated sales of €53.8m over the first semester of 2016, up 15.7% year-on-year. It also achieved a significant improvement in its operating profitability, with EBITDA of €6.9m up 54% year-on-year, mainly due to the higher sales and an improved gross margin due to the lower market price of raw milk.

Exit

Pursuant to the fulfilment of all the conditions precedent for the sale of RC2 and the Ciurtin family's shares in Albalact to Lactalis, the Romanian Financial Supervisory Authority ("FSA") has authorized Lactalis' tender offer for the whole of the share capital of Albalact at a price of RON 0.5252 per share. The tender offer is due to last from 10 August 2016 to 14 September 2016, with RC2 due to receive exit proceeds of approximately RON 87.2 million around the 19 September 2016.

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*	2015*	2016B	1H15**	1H16**	1H16B
Income Statement						
Sales Revenues	**1,972**	**2,331**	**2,527**	**540**	**524**	**600**
Total Operating Revenues	**2,045**	**2,349**	**2,527**	**560**	**540**	**628**
Total Operating Expenses	(2,106)	(2,044)	(2,163)	(751)	(814)	(890)
Operating Profit	**(61)**	**305**	**364**	**(191)**	**(274)**	**(263)**
Operating margin	*neg.*	*13.0%*	*14.4%*	*neg.*	*neg.*	*neg.*
EBITDA	**253**	**484**	**580**	**(100)**	**(188)**	**(161)**
EBITDA margin	*12.4%*	*20.6%*	*22.9%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**(158)**	**176**	**204**	**(239)**	**(323)**	**(310)**
Net margin	*neg.*	*7.5%*	*8.1%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.445*	*4.445*	*4.450*	*4.447*	*4.495*	*4.450*

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

Operating revenues over the first semester were €0.54m, down 3.5% year-on-year, and 13.9% below budget, mainly due to bad weather in May, which is the first month of the year with consistent activity at the Hotel. However, June was a good month, with revenues of €0.36m within budget and 14% above last year. Overall, the occupancy rate of 13.8% over the first semester was slightly lower than the 14.5% achieved over the same period last year.

The six-month EBITDA loss of €0.19m was higher than the budgeted loss of €0.16m, mainly due to the lower revenues, whilst operating costs came in 7.6% below budget.

A hotel's new Spa facility opened at the end of June. The Company used the remaining €0.29m of its investment loan to complete the works on the Spa, bringing its total indebtedness to €1.8m.

Klas

Background

Klas DOO ("Klas" or the "Company"), the former bakery division of East Point Holdings Limited ("EPH") is now 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. RC2 also had a €0.6m (including accrued interest) shareholder loan to Klas outstanding as at 30 June 2016. In December 2015, €3m of outstanding payables due to Zitomlin, the milling company of the EPH group, was converted into 33.3% of the share capital of BPI, Klas's operating subsidiary, in an effort to stabilize the group's cashflow, and improve its working capital position.

Financial results and operations

EUR '000	2014*	2015A**	2016B	1H15**	1H16**	1H16B
Net sales	**10,659**	**5,097**	**6,943**	**2,446**	**2,427**	**2,533**
EBITDA	**(2,266)**	**(1,095)**	**157**	**(936)**	**(259)**	**(143)**
EBITDA margin	*-21.3%*	*-21.5%*	*2.3%*	*-38.3%*	*-10.7%*	*-5.6%*
Profit after tax	**(2,826)**	**(2,056)**	**(1,488)**	**(605)**	**(788)**	**(536)**
Net margin	*-26.5%*	*-40.3%*	*-21.4%*	*-24.7%*	*-32.5%*	*-21.2%*

*Note: * audited, ** management accounts*

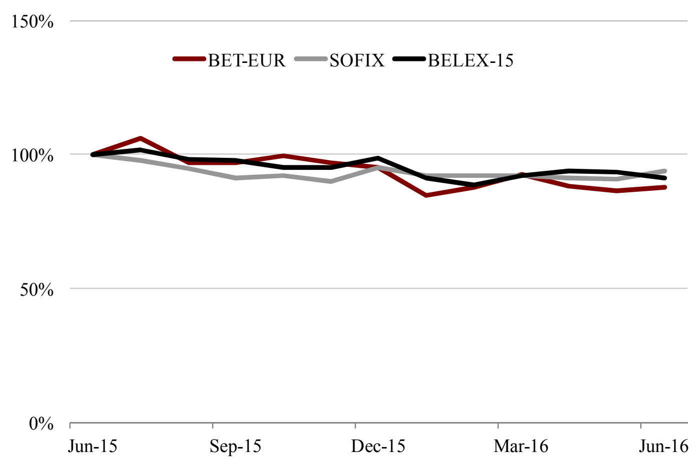
Sales results for Klas for the first half year were 4.1% behind budget at €2.43m, but virtually unchanged year-on-year. This indicates that the business has now stabilised after the steep falls during the prior years' restructuring process. The gross margin was steady at 63%, and daily production volumes are approaching 29 tons – both these indicators being only slightly below budget.

The EBITDA loss of €-0.26m was almost twice that budgeted, but a significant improvement on the 2015 half year result of €-0.94 m. The cost base of the Company is now better aligned to its sales level, although management recognises that break-even is not likely until October. The focus is now on increasing the sales volume (a 10% growth in monthly sales is planned by year-end) which would allow a better recovery of fixed overheads.

The Company's external debt now stands at €1.4m, and management are currently investigating options for an extension of the principal and interest payment holiday which expires in March 2017.

Capital Market Developments

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



Commentary

During the second quarter, the Romanian BET and the Serbian BELEX indices fell by 5.1% and 0.8%, respectively, while the Bulgarian SOFIX index increased by 2.1%, all in euro terms. By comparison, over the same quarter, the MSCI Emerging Market Eastern Europe and the FTSE100 indices were down by 0.4% and 0.2%, respectively, while the MSCI Emerging Market and the S&P indices increased by 2.4% and 4.7%, respectively, all in euro terms.

Over the past year, the BET-EUR index lost 12.1%, the SOFIX 6.1% and the BELEX-15 8.7%, all in euro-terms. Over the same period, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market and the FTSE100 indices lost 10.8%, 13.6% and 15.2%, respectively, whilst the S&P index gained 2.5%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	4.1%	1Q16	2.9%	1Q16	1.8%	2Q16
Inflation (y-o-y)	-0.7%	Jun-16	-1.3%	Jun-16	1.5%	Jun-16
Ind. prod. growth (y-o-y)	-1.1%	May-16	-3.3%	May-16	-2.2%	Jun-16
Trade balance (EUR bn)	-3.8	5M16	-0.5	5M16	-0.4	Jun-16
y-o-y	*46.5%*		*-39.2%*		*-32.5%*	
FDI (EUR bn)	1.1	5M16	0.5	5M16	0.7	5M16
y-o-y change	*-13.2%*		*-34.4%*		*-8.4%*	
Total external debt/GDP	52.3%	May-16	76.1%	May-16	71.0%	Jun-16
Reserves to short-term debt	180.7%	May-16	287.8%	May-16	355.5%	Jun-16
Loans-to-deposits	83.9%	Jun-16	79.2%	Jun-16	108.5%	Jun-16
Public sector debt-to-GDP	38.7%	May-16	29.3%	May-16	75.2%	May-16

Commentary

Romania

According to revised data from the Romanian National Statistic Institute, GDP grew by 4.1% in the second quarter, which is slightly lower than the previously reported 4.2%, due to a downward revision of private consumption, which increased by 6.1% year-on-year, compared to 6.4% as previously reported. Information about the second quarter's GDP growth is not yet available.

After inflation hit a historical low in May, when prices fell by 3.5% year-on-year, Romania recorded a 0.7% year-on-year fall in prices in June, as the base effect of the VAT rate cut (from 24% to 9%) on basic food stuffs which was implemented in June 2015 faded away.

The Romanian leu has been volatile against the euro during the second quarter in the context of the uncertainties generated by the Brexit vote, and ended up losing 1% over the quarter. However, on a year-to-date basis, the leu has gained 0.1% against the euro.

Considering the recent fiscal relaxation measures, the budget deficit over the first half of 2016 came in at €0.9bn, equivalent to 0.5% of GDP, compared to a surplus of 0.6% over the first semester of 2015. Budgetary receipts fell by 2% year-on-year, mainly due to lower VAT collections, which made up 24.4% of total budgetary receipts and fell by 9.5% year-on-year. This was only partially compensated by improved receipts from corporate profit taxes, which represent 7.1% of total receipts and increased by 12.5% year-on-year. Total budgetary expenses increased by 5.5% year-on-year from €23.9bn to €24.9bn, with personnel and social expenditures, which account for 61% of total expenses, increasing by 9.1%.

Over the first five months of 2016, the trade gap widened by 46.5% year-on-year (from €-2.6bn to €-3.8bn), as imports grew by 8.7% due to increasing domestic private consumption, while exports increased by only 4.4%. The negative evolution of the trade balance was the main reason behind a €2.6bn current account deficit, which is the equivalent to 1.5% of GDP and compares to a €42m surplus over the same period of 2015. Over the first five months of 2016, FDI flows amounted to €1.1bn, which is down on the €1.3bn achieved over the same period of 2015, as intra-group loans fell by €1.2bn whilst equity investments grew by €0.9bn.

Romania's total external debt was €88.0bn at the end of May, which represents a 2.2% year-to-date fall, and equates to approximately 52.3% of GDP. Total public debt was €61.8bn, or 38.5% of GDP, at the end of May, only slightly up on the 38.4% recorded at the end of 2015.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.4bn at the end of June, and was virtually unchanged year-to-date in RON terms. Household loans amounted to €24.6bn at the end of June, up 2.4% in RON terms since the beginning of the year, as RON-denominated consumer and housing loans grew by 5.9% and 30.6%, respectively. Since the new "walk away" law, which limits the liability of mortgage borrowers to the level of the real estate collateral they have provided, came into force in May, banks have strengthened their criteria for granting mortgage loans, which will potentially have a negative effect on loan creation. The overall deposit base has increased by 4.5% in RON terms since the end of the previous quarter and by 2.4% year-to-date, and amounted to €57.7bn at the end of June. The NPL ratio was 12.4% at the end of May, down from the 13.61% recorded at the end of 2015.

Bulgaria

Whilst data on Bulgaria's second quarter GDP growth is not yet available, Bulgaria's first quarter GDP grew by 2.9% year-on-year and by 0.7% quarter-on-quarter.

Bulgaria continues to experience deflation, having recorded a 1.3% year-on-year fall in prices in June, compared to a 0.4% year-on-year fall in December 2015.

Over the first five months of 2016, Bulgaria achieved a budget surplus of €1.4bn, or 3.1% of GDP, which is a marked improvement over the 1.3% surplus achieved over the same period in 2015. The surplus was triggered by a 10.1% increase in tax revenues (up from €5.3bn to €5.8bn), whilst total budgetary expenses fell by 4.5% (from €6.3bn to €6.0bn). The decrease in budgetary expenses was due to lower capital expenditures, which fell from €0.75bn to €0.34bn. Bulgaria's public sector debt amounted to 29.3% of GDP at the end of May, unchanged since the end of the previous quarter, but up from 26.4% at the end of 2015. The increase was due to Bulgaria placing €1.1b of seven-year bonds, and €0.9bn of 12-year bonds, in March 2016.

Bulgaria's trade balance improved from a deficit of €-0.8bn over the first five months of 2015 to a deficit of €-0.5bn over the same period of 2016. While exports fell by 2.7%, the year-on-year fall in imports was higher at 5.8%. Helped by a €0.4bn surplus from primary and secondary income, and a €0.4bn surplus from services, the current account balance was €0.3bn in surplus, or 0.6% of GDP, an improvement on the 0.4% deficit achieved over the same period of 2015. FDI inflows amounted to €0.5bn, which was 34.1% lower than in the same period of 2015. The decrease was due to lower intra-group loans, which fell by €0.2bn, whilst equity investments were €0.06bn lower.

The Bulgarian banking system's loans to non-financial institutions amounted to €24.8bn at the end of June, which is 0.3% lower than at the end of December. Corporate loans fell by 0.5%, while household loans increased slightly by 0.2%, the result of consumer loans falling by 0.3%, and loans for house purchases increasing by 0.8% (household loans account for 38% of the overall loan stock). Meanwhile, the deposit base grew from €31.1bn at the end of 2015 to €31.3bn at the end of June (+0.7%).

Serbia

Serbia's GDP growth accelerated in the second quarter to reach 1.8% year-on-year, making the National Bank of Serbia (NBS) upgrade its forecast for overall 2016 growth to 2.5%. The improvement is the result of several factors, including the relaxation of monetary policy, the implementation of certain structural reforms and an export-led recovery.

Inflation continues to be benign, with lower oil and agricultural prices exerting downwards pressure on the annual rate, which touched 1.5% in June. This led to the NBS lowering its key policy rate by a further 25 basis points to 4.00% at the beginning of July.

During the first five months of 2016, FDI inflows were €0.7bn, approximately the same as the corresponding period in 2015. However, the inflows were concentrated in the manufacturing and other tradable sectors focused on exports, whilst previously they had been concentrated in the real estate and finance sectors. This bodes well for the medium-term, and has been recognised by international credit rating agencies, with Serbia's credit rating from Fitch being upgraded from B+ to BB- with stable outlook in June, and S&P confirming Serbia's rating at BB- with stable outlook in July.

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