KOMERCIJALNA BANKA AD BEOGRAD

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2014 (amendment)

CONTENTS

Completed by bank		
Registration number: 07737068	Activity code: 6 4 1 9	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

BALANCE SHEET - CONSOLIDATED
as at 31.12.2014

(in RSD thousand)

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
00 without 002, 010, 025, 05 (exept 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of account 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with the central bank	0001	3k; 19	72.633.528	75.136.496	68.968.426
	Pledged financial assets	0002		-	-	-
120, 220, 125 and 225	Financial assets recognised at fair value through income statement and held for trading	0003	3l; 20	121.634	115.319	212.690
121 and 221	Financial assets initially recognised at fair value through income statement	0004		-	-	-
122, 222, part of 129 and part of 229	Financial assets available for sale	0005	3n; 21	98.958.788	58.986.673	41.739.375
124, 224, part of 129 and part of 229	Financial assets held to maturity	0006	3n; 22	390.015	426.901	564.648
002, 01 (except 010 and part of 019), part of 020, 028, 050, 052, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, part of 493 and part of 593 as deductibles (SSKR - SS code 1 (without code 17), code 70 and parts of codes 71 and 74) and parts of account 009, 029, 059, 089, 199 and 299	Loans and receivables from banks and other financial organisations	0007	3m; 23	35.733.988	35.680.426	23.410.113
01 (except 010 and part of 019), part of 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, part of 493 and part of 593 as deductibles (SSKR - SS code 17 and all other codes, except code 70 and parts of codes 71 and 74) and parts of account 029, 069, 089, 199 and 299	Loans and receivables from clients	0008	3m; 24	203.828.648	195.554.454	194.311.220
123 and 223	Change in fair value of hedged items	0009		-	-	-
126 and 226	Receivables arising from hedging derivatives	0010		-	-	-
130, 131, 230, 231, part of 139 and part of 239	Investments in associated companies and joint ventures	0011		-	-	-
132, 232, part of 139 and part of 239	Investments into subsidiaries	0012	3n; 25	-	-	-
33	Intangible investments	0013	3p; 26	451.205	589.010	644.837
34	Property, plant and equipment	0014	3o; 27	6.605.496	6.872.601	6.017.869
35	Investment property	0015	3q; 28	2.711.213	1.934.318	1.853.452
034 and part of 039	Current tax assets	0016	3i(i); 29	79.572	725.010	12.784
37	Deferred tax assets	0017	3i(ii); 30.1	5	47	4.896
36	Non-current assets held for sale and discontinued operations	0018	3r; 31	137.802	75.968	78.763
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of account 029, 089, 139, 199, 239 and 299	Other assets	0019	3r; 32	9.050.215	8.198.800	4.448.285
	TOTAL ASSETS (from 0001 to 0019)	0020		**430.702.109**	**384.296.023**	**342.267.358**

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
411, 416, 511, 516	**LIABILITIES** LIABILITIES Financial liabilities recognised at fair value through income statement and held for trading	0401		-	-	-
415 and 515	Financial liabilities initially recognised at fair value through income statement	0402		-	-	-
417 and 517	Liabilities arising from hedging derivatives	0403		-	-	-
part of 40, part of 420, part of 421, part of 490, part of 50, part of 520, part of 521, part of 590, part of 193 and part of 293 as deductibles (SSKR – SS code 1 (without code 17), code 70 and parts of codes 71 and 74)	Deposits and other liabilities to banks, other financial organisations and central bank	0404	3u; 33	26.247.764	23.227.373	14.729.145
part of 40, part of 420, part of 421, part of 490, part of 50, part of 520, part of 521, part of 590, part of 193 and part of 293 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74)	Deposits and other liabilities to other clients	0405	3u; 34	321.094.208	283.075.277	255.155.361
418 and 518	Change in fair value of hedged items	0406		-	-	-
410, 412, 423, 496, 510, 512, 523, 596 and 127 as a deductibles	Own securities issued and other borrowings	0407		-	-	-
424, 425, 482, 497, 524, 525, 582, 597 and parts of 193 and 293 as deductible items	Subordinated liabilities	0408	3u; 35	6.036.680	5.711.409	5.654.932
450, 451, 452, 453 and 454	Provisions	0409	3v; 36	1.732.069	835.311	2.406.634
46	Liabilities under assets held for sale and discontinued operations	0410		-	-	-
455	Current tax liabilities	0411	3i(i); 18	14.726	17.765	19.967
47	Deferred tax liabilities	0412	3i(ii); 30.1	160.991	13.131	948
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0413	37	3.314.942	4.374.061	2.227.221
	TOTAL LIABILITIES (from 0401 to 0413)	0414		**358.601.380**	**317.254.327**	**280.194.208**
80	CAPITAL Share capital	0415	3y; 25; 38	40.034.550	40.034.550	40.034.550
128	Own shares	0416		-	-	-
83	Profit	0417	3y; 38	6.925.972	6.868.966	4.640.007
84	Loss	0418		-	-	-
81 and 82 – credit balance	Reserves	0419	3y; 25; 38	25.140.140	20.138.117	17.398.531
81 and 82 – debit balance	Unrealized losses	0420		-	-	-
	Non-controlling participation	0421	6.1; 38	67	63	62
	TOTAL CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422		**72.100.729**	**67.041.696**	**62.073.150**
	TOTAL CAPITAL SHORTFALL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423		-	-	-
	TOTAL LIABILITIES (0414 + 0422 - 0423)	0424		**430.702.109**	**384.296.023**	**342.267.358**

In Belgrade,

Date _____________

Legal representative of the bank

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Completed by bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	TIN: 1 0 0 0 0 1 9 3 1
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, 14, Svetog Save		

INCOME STATEMENT - CONSOLIDATED

in the period from January 1st to December 31st, 2014

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3c ;8	22.791.487	23.646.698
60	Interest expenses	1	0	0	2	3c ;8	8.355.436	9.518.238
	Net interest income (1001 - 1002)	1	0	0	3		**14.436.051**	**14.128.460**
	Net interest expenses (1002 - 1001)	1	0	0	4		-	-
71	Income from fees and commissions	1	0	0	5	3d ;9	6.030.531	5.827.288
61	Expenses on fees and commissions	1	0	0	6	3d ;9	1.046.591	998.007
	Net income from fees and commissions (1005 - 1006)	1	0	0	7		**4.983.940**	**4.829.281**
	Net expenses on fees and commissions (1006 - 1005)	1	0	0	8		-	-
720-620+771-671+774-674	Net gains from financial assets held for trading	1	0	0	9	3e ;10	7.022	22.826
620-720+671-771+674-774	Net losses on financial assets held for trading	1	0	1	0		-	-
775-675+770-670	Net gains from hedging	1	0	1	1		-	-
675-775+670-770	Net losses on hedging	1	0	1	2		-	-
725-625+776-676	Net gains from financial assets initially recognised at fair value through income statement	1	0	1	3		-	-
625-725+676-776	Net losses on financial assets initially recognised at fair value through income statement	1	0	1	4		-	-
721-621	Net gains from financial assets available for sale	1	0	1	5	11	79.245	1.738
621-721	Net losses on financial assets available for sale	1	0	1	6		-	-
78-68	Net exchange rate gains and gains from agreed currency clause	1	0	1	7		-	-
68-78	Net exchange rate losses and losses on agreed currency clause	1	0	1	8	3b ;12	200.284	35.592
723-623	Net gains from investments in associated companies and joint ventures	1	0	1	9		-	-
623-723	Net losses on investments in associated companies and joint ventures	1	0	2	0		-	-
724, 74, 752, 753, 76 (except 760, 769), 772, 773	Other operating income	1	0	2	1	3g ;3v ;13	478.844	775.034
750-650+751-651+760-660	Net income from reduction in impairment of financial assets and credit risk-weighted off-balance sheet items	1	0	2	2		-	-
650-750+651-751+660-760	Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	1	0	2	3	3j ; 5; 14	2.821.458	3.359.720
	TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1	0	2	4		**16.963.360**	**16.362.027**

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
	TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1	0	2	5		**-**	**-**
63, 655, 755	Salaries, salary compensations and other personal expenses	1	0	2	6	15	4.745.269	4.784.895
642	Depreciation costs	1	0	2	7	3o ;16	932.851	878.973
64 (except 642), 624, 652, 653, 66 (except 660 and 669), 672, 673	Other expenses	1	0	2	8	3h ;17	6.492.439	6.297.517
	PROFIT BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1	0	2	9		**4.792.801**	**4.400.642**
	LOSSES BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1	0	3	0		**-**	**-**
850	Profit tax	1	0	3	1	3i (i) ; 18	23.148	24.679
861	Gains from deferred taxes	1	0	3	2	3i (ii) ;18	47.547	89.038
860	Losses on deferred taxes	1	0	3	3	3i (ii) ;18	21.823	3.063
	PROFIT AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	4		**4.795.377**	**4.461.938**
	LOSSES AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	5		**-**	**-**
769-669	Net profit from discontinued operations	1	0	3	6		**-**	**-**
669-769	Net losses on discontinued operations	1	0	3	7		**-**	**-**
	RESULT FOR THE PERIOD – PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1	0	3	8		**4.795.377**	**4.461.938**
	RESULT FOR THE PERIOD – LOSSES (1034 - 1035 + 1036 - 1037) < 0	1	0	3	9		**-**	**-**
	Profit belonging to a parent entity	1	0	4	0		**4.795.377**	**4.461.938**
	Profit belonging to non-controlling owners	1	0	4	1		**-**	**-**
	Losses belonging to a parent entity	1	0	4	2		**-**	**-**
	Losses belonging to non-controlling owners	1	0	4	3		**-**	**-**
	EARNINGS PER SHARE							
	Basic earnings per share (in dinars, without paras)	1	0	4	4	3 z; 38	253	468
	Diluted earnings per share (in dinars, without paras)	1	0	4	5	3 z; 38	253	242

In Belgrade,
Date ___________________

Legal representative of the bank
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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

in the period from January 1st to December 31st, 2014

(in RSD thousand)

Group of accounts, account	ITEM	ADP code	Note No	Current year	Previous year
1	2	3	4	5	6
	PROFIT FOR THE PERIOD	2001		4.795.377	4.461.938
	LOSS FOR THE PERIOD	2002		-	-
820	**Other comprehensive income for the period** **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves arising from intangible investments and fixed assets	2003	38.2.	-	711.119
820	Decrease in revaluation reserves arising from intangible investments and fixed assets	2004	38.2.	3.472	24.439
822	Actuarial gains	2005	36; 38.2.	7.357	-
822	Actuarial losses	2006	36; 38.2.	27.808	-
825	Positive effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2007		-	-
825	Negative effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2008		-	-
821	**Components of other comprehensive income which may be reclassified to profit or loss:** Positive effects of change in fair value of financial assets available for sale	2009	38.2.	748.153	378.816
823	Unrealized losses on securities available for sale	2010	38.2.	91.445	179.995
824	Gains from cash flow hedges	2011		-	-
824	Losses on cash flow hedges	2012		-	-
826	Cumulative translation gains for foreign operations	2013	38.3.	374.967	52.621
826	Cumulative translation losses for foreign operations	2014		-	-
826	Positive effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2015		-	-
826	Negative effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2016		-	-
82	Tax gains pertaining to other comprehensive income for the period	2017	38.2.	45.412	-
82	Tax losses pertaining to other comprehensive income of the period	2018	38.2.	221.204	103.002
	Total positive other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019		**831.960**	**835.120**
	Total negative other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020		-	-
	TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021		**5.627.337**	**5.297.058**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2022		-	-
	Total positive comprehensive income for the period belonging to a parent entity	2023		**5.627.337**	**5.297.058**
	Total positive comprehensive income for the period belonging to non-controlling owners	2024		-	-
	Total negative comprehensive income for the period belonging to a parent entity	2025		-	-
	Total negative comprehensive income for the period belonging to non-controlling owners	2026		-	-

In _______________,
Date ____________

Legal representative of the bank
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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

CASH FLOW STATEMENT - CONSOLIDATED

in the period from 01.01. to 31.12.2014.

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A.	CASH FLOW FROM OPERATING ACTIVITIES			
I.	Cash inflow from operating activities (from 3002 to 3005)	3001	28.021.728	28.014.924
1.	Interest	3002	21.775.054	21.979.938
2.	Fees	3003	6.016.498	5.784.379
3.	Other operating income	3004	229.408	247.243
4.	Dividends and profit sharing	3005	768	3.364
II.	Cash outflow from operating activities (from 3007 to 3011)	3006	20.649.146	21.257.791
5.	Interest	3007	8.455.712	9.342.167
6.	Fees	3008	1.047.845	999.876
7.	Gross salaries, salary compensations and other personal expenses	3009	4.528.929	4.834.263
8.	Taxes, contributions and other duties charged to income	3010	856.507	1.008.550
9.	Other operating expenses	3011	5.760.153	5.072.935
III.	Net cash inflow from operating activities before an increase or decrease in lending and deposits (3001 - 3006)	3012	7.372.582	6.757.133
IV.	Net cash outflow from operating activities before an increase or decrease in lending and deposits (3006 - 3001)	3013	-	-
V.	Decrease in lending and increase in deposits received and other liabilities (from 3015 to 3020)	3014	33.807.770	25.339.114
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	5.624.610	-
11.	Decrease in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3016	-	1.655.401
12.	Decrease in receivables arising from hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other liabilities to banks, other financial organisations, central bank and clients	3018	28.183.160	23.683.713
14.	Increase in financial liabilities initially recognised at fair value through income statement and financial liabilities held for trading	3019	-	-
15.	Increase in liabilities arising from hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	Increase in lending and decrease in deposits received and other liabilities (from 3022 to 3027)	3021	4.786.862	24.244.136
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	24.244.136
17.	Increase in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3023	4.786.862	-
18.	Increase in receivables arising from hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other liabilities to banks, other financial organisations, central banks and clients	3025	-	-
20.	Decrease in financial liabilities initially recognised at fair value through income statement and financial assets held for trading	3026	-	-
21.	Decrease in liabilities arising from hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3028	36.393.490	7.852.111
VIII.	Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22.	Profit tax paid	3030	18.218	738.741
23.	Dividends paid	3031	481.710	269.195
IX.	Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	35.893.562	6.844.175
X.	Net cash outflow for operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
B.	CASH FLOW FROM INVESTING ACTIVITIES			
I.	Cash inflow from investing activities (from 3035 to 3039)	3034	18.500.189	14.567.190
1.	Investment in investment securities	3035	18.487.730	14.553.472
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	12.459	13.718
4.	Sale of investment property	3038	-	-
5.	Other inflow from investing activities	3039	-	-
II.	Cash outflow for investing activities (from 3041 to 3045)	3040	50.607.338	33.892.271
6.	Investment into investment securities	3041	50.095.346	33.075.772
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	976
8.	Purchase of intangible investments, property, plant and equipment	3043	511.992	815.523
9.	Purchase of investment property	3044	-	-
10.	Other outflow for investing activities	3045	-	-
III.	Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV.	Net cash outflow for investing activities (3040 - 3034)	3047	32.107.149	19.325.081
C.	CASH FLOW FROM FINANCING ACTIVITIES			
I.	Cash inflow from financing activities (from 3049 to 3054)	3048	209.112.020	219.924.010
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	209.112.020	219.924.010
4.	Issuance of own securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	Cash outflow for financing activities (from 3056 to 3060)	3055	209.072.271	206.324.296
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	209.072.271	206.324.296
10.	Issuance of own securities	3059	-	-
11.	Other outflow for financing activities	3060	-	-
III.	Net cash inflow from financing activities (3048 - 3055)	3061	39.749	13.599.714
IV.	Net cash outflow for financing activities (3055 - 3048)	3062	-	-
D.	TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	289.441.707	287.845.238
E.	TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	285.615.545	286.726.430
F.	NET INCREASE IN CASH (3063-3064)	3065	3.826.162	1.118.808
G.	NET DECREASE IN CASH (3064-3063)	3066	-	-
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	42.723.039	41.438.204
I.	EXCHANGE RATE GAINS	3068	1.917.335	1.311.611
J.	EXCHANGE RATE LOSSES	3069	570.266	1.145.584
K.	CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	47.896.270	42.723.039

In Belgrade, Legal representative of the bank

Date ___________ ___________________________

Completed by bank		
Registration number: 07737068	**Activity code: 6419**	**TIN: 100001931**
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED
in the period from 01.01. to 31.12. 2014.

(in RSD thousand)

No	DESCRIPTION	ADP code	Share capital and other equity (accounts 800, 801,803)	ADP code	Own shares (account 128)	ADP code	Premium on issue of shares (account 802)	ADP code	Reserves from profit and other reserves (group of accounts 81)	ADP code	Revaluation reserves (group of accounts 82 credit balance)	ADP code	Revaluation reserves (group of accounts 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840, 841, 842)	ADP code	Total (columns 2-3+4+5+6-7+8-9) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9) < 0
	1		2		3		4		5		6		7		8		9		10		11
1.	**Opening balance as at 1 January of the previous year**	4001	17.191.524	4029	-	4057	22.843.084	4085	15.149.322	4113	2.256.228	4127	7.016	4141	4.640.008	4175	-	4209	62.073.150	4215	-
2.	Adjustment for material errors and changes in accounting policies in the previous year – increase	4002	-	4030	-	4058	-	4086	-	4114	-	4128	-	4142	-	4176	-	x	x	x	x
3.	Adjustment for material errors and changes in accounting policies in the previous year – decrease	4003	-	4031	-	4059	-	4087	-	4115	-	4129	-	4143	-	4177	-	x	x	x	x
4.	**The adjusted opening balance as at 1 January of the previous year (No 1+2-3)**	4004	17.191.524	4032	-	4060	22.843.084	4088	15.149.322	4116	2.256.228	4130	7.016	4144	4.640.008	4178	0	4210	62.073.150	4216	-
5.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4117	1.005.076	4131	-	x	x	x	x	x	x	x	x
6.	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4118	-	4132	179.995	x	x	x	x	x	x	x	x
7.	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4145	4.461.938	x	x	x	x	x	x
8.	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4179	-	x	x	x	x
9.	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4146	-	4180	-	x	x	x	x
10.	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4147	-	4181	-	x	x	x	x
11.	Transactions with owners recognized directly in equity – increase	4005	-	4033	-	4061	-	4089	-	x	x	x	x	4148	-	4182	-	x	x	x	x
12.	Transactions with owners recognized directly in equity – decrease	4006	-	4034	-	4062	-	4090	-	x	x	x	x	4149	-	4183	-	x	x	x	x
13.	Distribution of profit – increase	4007	-	4035	-	4063	-	4091	1.911.549	x	x	x	x	4150	-	4184	-	x	x	x	x
14.	Distribution of profit and/or coverage of losses – decrease	4008	-	4036	-	4064	-	4092	-	x	x	x	x	4151	1.911.549	4185	-	x	x	x	x
15.	Dividend payments	4009	-	4037	-	4065	-	4093	-	x	x	x	x	4152	37.351	4186	-	x	x	x	x
16.	Other – increase	4010	1	4038	-	4066	-	4094	2.957	x	x	x	x	4153	14.960	4187	-	x	x	x	x
17.	Other – decrease	4011	-	4039	-	4067	-	4095	-	x	x	x	x	4154	299.040	4188	-	x	x	x	x
18.	**Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0**	4012	1	4040	-	4068	-	4096	1.914.506	x	x	x	x	4155	-	4189	-	x	x	x	x
19.	**Total transactions with owners (No 11-12+13-14-15+16-17) < 0**	4013	-	4041	-	4069	-	4097	-	x	x	x	x	4156	2.232.980	4190	-	x	x	x	x
20.	**Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)**	4014	17.191.525	4042	-	4070	22.843.084	4098	17.063.828	4119	3.261.304	4133	187.011	4157	6.868.966	4191	-	4211	67.041.696	4217	-

No	DESCRIPTION	ADP code	Share capital and other equity (accounts 800, 801,803)	ADP code	Own shares (account 128)	ADP code	Premium on issue of shares (account 802)	ADP code	Reserves from profit and other reserves (group of accounts 81)	ADP code	Revaluation reserves (group of accounts 82 credit balance)	ADP code	Revaluation reserves (group of accounts 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840, 841, 842)	ADP code	Total (columns 2-3+4+5+6-7+8-9) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9) < 0
	1		2		3		4		5		6		7		8		9		10		11
21.	**Opening balance as at 1 January of the current year**	4015	17.191.525	4043	-	4071	22.843.084	4099	17.063.828	4120	3.261.304	4134	187.011	4158	6.868.966	4192	-	4212	67.041.696	4218	-
22.	Adjustment for material errors and changes in accounting policies in the previous year – increase	4016	-	4044	-	4072	-	4100	-	4121	-	4135	-	4159	-	4193	-	x	x	x	x
23.	Adjustment for material errors and changes in accounting policies in the previous year – decrease	4017	-	4045	-	4073	-	4101	-	4122	-	4136	-	4160	-	4194	-	x	x	x	x
24.	**Adjusted opening balance as at 1 January of the current year (No 21+22-23)**	4018	17.191.525	4046	-	4074	22.843.084	4102	17.063.828	4123	3.261.304	4137	187.011	4161	6.868.966	4195	-	4213	67.041.696	4219	-
25.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4124	998.869	4138	-	x	x	x	x	x	x	x	x
26.	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4125	-	4139	50.863	x	x	x	x	x	x	x	x
27.	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4162	4.795.376	x	x	x	x	x	x
28.	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4196	-	x	x	x	x
29.	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4163	190.318	4197	-	x	x	x	x
30.	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4164	-	4198	-	x	x	x	x
31.	Transactions with owners recognized directly in equity – increase	4019	-	4047	-	4075	-	4103	-	x	x	x	x	4165	-	4199	-	x	x	x	x
32.	Transactions with owners recognized directly in equity – decrease	4020	-	4048	-	4076	-	4104	-	x	x	x	x	4166	-	4200	-	x	x	x	x
33.	Distribution of profit – increase	4021	-	4049	-	4077	-	4105	4.220.734	x	x	x	x	4167	-	4201	-	x	x	x	x
34.	Distribution of profit and/or coverage of losses – decrease	4022	-	4050	-	4078	-	4106	-	x	x	x	x	4168	4.220.734	4202	-	x	x	x	x
35.	Dividend payments	4023	-	4051	-	4079	-	4107	-	x	x	x	x	4169	604.620	4203	-	x	x	x	x
36.	Other – increase	4024	3	4052	-	4080	-	4108	23.602	x	x	x	x	4170	46.891	4204	-	x	x	x	x
37.	Other – decrease	4025	-	4053	-	4081	-	4109	190.318	x	x	x	x	4171	150.225	4205	-	x	x	x	x
38.	**Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0**	4026	3	4054	-	4082	-	4110	4.054.018	x	x	x	x	4172	-	4206	-	x	x	x	x
39.	**Total transactions with owners (No 31-32+33-34-35+36- 37) < 0**	4027	-	4055	-	4083	-	4111	-	x	x	x	x	4173	4.928.688	4207	-	x	x	x	x
40.	**Balance as at 31 December of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)**	4028	17.191.528	4056	-	4084	22.843.084	4112	21.117.846	4126	4.260.173	4140	237.874	4174	6.925.972	4208	-	4214	72.100.729	4220	-

In Belgrade
Date ______________

Legal representative of the bank
____

KOMERCIJALNA BANKA A.D., BEOGRAD

Consolidated Financial Statements
Year Ended December 31, 2014 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Komercijalna banka A.D., Beograd

We have audited the accompanying consolidated financial statements (enclosed on pages 2 to 115) of Komercijalna banka A.D., Beograd (the "Parent Bank") and its subsidiaries (u jointly: the "Group"), which comprise the consolidated balance sheet as of December 31, 2014 and the related consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as per the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the Law on Audit of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Bank's preparation and fair presentation of the consolidated 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 Parent Bank'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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014,, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as per the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Report on Other Legal and Regulatory Requirements

Management of the Parent Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. In accordance with the Law on Audit of the Republic of Serbia and Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the Group's annual business report for the year 2014 with the audited consolidated financial statements for the same financial year. In our opinion, the financial information disclosed in the Group's annual business report for 2014 is consistent with its audited consolidated financial statements for the year ended December 31, 2014.

Belgrade, May 20, 2015

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

CONSOLIDATED BALANCE SHEET
As of December 31, 2014
(Thousands of RSD)

	Note	2014	2013	2012
ASSETS				
Cash and cash funds held with the central bank	3 k; 19	72,633,528	75,136,496	68,968,426
Financial assets at fair value through profit and loss, held for trading	3 l; 20	121,634	115,319	212,690
Financial assets available for sale	3 n; 21	98,958,788	58,986,673	41,739,375
Financial assets held to maturity	3 n; 22	390,015	426,901	564,648
Loans and receivables due from banks and other financial institutions	3 m; 23	35,733,988	35,680,426	23,410,113
Loans and receivables due from customers	3 m; 24	203,828,648	195,554,454	194,311,220
Intangible assets	3 p; 26	451,205	589,010	644,837
Property, plant and equipment	3 o; 27	6,605,496	6,872,601	6,017,869
Investment property	3 q; 28	2,711,213	1,934,318	1,853,452
Current tax assets	3 i(i); 29	79,572	725,010	12,784
Deferred tax assets	3 i (ii); 30.1;	5	47	4,896
Non-current assets held for sale and assets from discontinued operations	3r;31	137,802	75,968	78,763
Other assets	3r;32	9,050,215	8,198,800	4,448,285
TOTAL ASSETS		430,702,109	384,296,023	342,267,358
LIABILITIES AND EQUITY				
Deposits and other liabilities due to banks, other financial institutions and the central bank	3 u; 33	26,247,764	23,227,373	14,729,145
Deposits and other liabilities due to customers	3 u; 34	321,094,208	283,075,277	255,155,361
Subordinated liabilities	3 u; 35	6,036,680	5,711,409	5,654,932
Provisions	3 v; 36	1,732,069	835,311	2,406,634
Current tax liabilities	3 i (i); 18;	14,726	17,765	19,967
Deferred tax liabilities	3 i (ii); 30.1	160,991	13,131	948
Other liabilities	37	3,314,942	4,374,061	2,227,221
TOTAL LIABILITIES		358,601,380	317,254,327	280,194,208
EQUITY				
Issued (share) capital	3 y; 25; 38	40,034,550	40,034,550	40,034,550
Profit	3 y ; 38	6,925,972	6,868,966	4,640,007
Reserves	3 y; 25; 38	25,140,140	20,138,117	17,398,531
Non-controlling interests	6.1.	67	63	62
Total equity attributable to the majority owners of the Bank		72,100,729,	67,041,696	62,073,150
TOTAL LIABILITIES AND EQUITY		430,702,109	384,296,023	342,267,358

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 29, 2015.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Savo Petrović
CFO

Ivica Smolić
Executive Board Chairman

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2014
(Thousands of RSD)

	Note	2014	2013
Interest income	3c ;8	22,791,487	23,646,698
Interest expenses	3c ;8	(8,355,436)	(9,518,238)
Net interest income		14,436,051	14,128,460
Fee and commission income	3d ;9	6,030,531	5,827,288
Fee and commission expenses	3d ;9	(1,046,591)	(998,007)
Net fee and commission income		4,983,940	4,829,281
Net gains on the financial assets held for trading	3e ;10	7,022	22,826
Net gains on the financial assets available for sale	3n(iii);11	79,245	1,738
Net foreign exchange losses and negative currency clause effects	3e ;12	(200,284)	(35,592)
Other operating income	3g ;3v ;13	478,844	775,034
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3j ; 5; 14	(2,821,458)	(3,359,720)
Total operating income		16,963,360	16,362,027
Staff costs	15	(4,745,269)	(4,784,895)
Depreciation and amortization charge	3o ;16	(932,851)	(878,973)
Other expenses	3h ;17	(6,492,439)	(6,297,517)
Profit before taxes		4,792,801	4,400,642
Current income tax expense	3i (i) ; 18	(23,148)	(24,679)
Gains on created deferred tax assets and decrease in deferred tax liabilities	3i (ii) ;18	47,547	89,038
Losses decrease in deferred tax assets and created deferred tax liabilities	3i (ii) ;18	(21,823)	(3,063)
Profit for the year (net of income taxes)		4,795,377	4,461,938
Earnings per share			
Basic earnings per share	3 z; 38	253	468
Diluted earnings per share	3 z; 38	253	242

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 29, 2015.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Savo Petrović
CFO

Ivica Smolić
Executive Board Chairman

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2014
(Thousands of RSD)

	Note	2014	2013
Profit for the year		4,795,377	4,461,938
Other comprehensive income			
Increase in revaluation reserves in respect of intangible assets, property, plant and equipment	38.2	-	711,119
Decrease in revaluation reserves in respect of intangible assets, property, plant and equipment	38.2	(3,472)	(24,439)
Actuarial gains	36;38.2	7,357	-
Actuarial losses	36;38.2	(27,808)	-
Net increase from the fair value adjustment of financial assets available for sale	38.2	748,153	378,816
Unrealized losses on securities available for sale	38.2	(91,445)	(179,995)
Cumulative foreign exchange gains on translation of foreign operations	38.3	374,967	52,621
Gains from taxes related to the other comprehensive income	38.2	45,412	-
Losses from taxes related to the other comprehensive income	38.2	(221,204)	(103,002)
Other comprehensive income for the year, net of taxes		831,960	835,120
Total comprehensive income for the year		5,627,337	5,297,058

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 29, 2015.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Savo Petrović
CFO

Ivica Smolić
Executive Board Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2014
(Thousands of RSD)

	Issued Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves (Credit Balance)	Revaluation Reserves (Debit Balance)	Profit	Total
Balance at January 1, 2013	**17,191,525**	**22,843,084**	**15,149,322**	**2,256,228**	**(7,016)**	**4,640,008**	**62,073,151**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	4,461,938	**4,461,938**
2012 profit distribution	-	-	1,911,549	-	-	(1,911,549)	**-**
	-	-	1,911,549	-	-	2,550,389	**4,461,938**
Other comprehensive income for the year							
Change in the value of properties as per revaluation	-	-	-	686,680	-	-	**686,680**
Gains on realized reserves (depreciation effects)	-	-	-	(10,038)	-	10,038	**-**
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	-	378,815	(179,995)	-	**198,820**
Net increase in foreign exchange gains in respect of equity investments	-	-	-	52,621	-	-	**52,621**
Effect of deferred tax liabilities in respect of increase in property and equipment due to revaluation	-	-	-	(103,002)	-	-	**(103,002)**
Other comprehensive income for the year, net of tax	-	-	-	1,005,076	(179,995)	10,038	**835,119**
	-	**-**	**1,911,549**	**1,005,076**	**(179,995)**	**2,560,427**	**5,297,057**
Transactions with equity holders, recognized directly in equity							
Payment of dividends for preferred shares	-	-	-	-	-	(37,351)	**(37,351)**
Employee share in profit	-	-	-	-	-	(296,853)	**(296,853)**
Other		-	2,957	-	-	2,735	**5,692**
	-	**-**	**2,957**	**-**	**-**	**(331,469)**	**(328,512)**
Balance at December 31, 2013	**17,191,525**	**22,843,084**	**17,063,828**	**3,261,304**	**(187,011)**	**6,868,966**	**67,041,696**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2014
(Thousands of RSD)

	Issued Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves (Credit Balance)	Revaluation Reserves (Debit Balance)	Profit	Total
Balance at January 1, 2014	**17,191,525**	**22,843,084**	**17,063,828**	**3,261,304**	**(187,011)**	**6,868,966**	**67,041,696**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	4,795,377	**4,795,377**
2013 profit distribution	-	-	4,220,734	-	-	(4,220,734)	**-**
	-	-	4,220,734	-	-	574,643	**4,795,377**
Other comprehensive income for the year							
Gains on realized reserves (depreciation effects)	-	-	-	-	(46,891)	46,891	**-**
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	-	656,708	-	-	**656,708**
Net increase in foreign exchange gains in respect of equity investments	-	-	-	374,967	-	-	**374,967**
Actuarial losses (Note 36)	-	-	-	(20,451)	-	-	**(20,451)**
Other	-	-	-	-	(3,472)	-	**(3,472)**
Effect of deferred tax liabilities in respect of increase in property and equipment due to revaluation	-	-	-	(175,792)	-	-	**(175,792)**
Other comprehensive income for the year, net of tax	-	-	-	835,432	(50,363)	46,891	**831,960**
	-	**-**	**4,220,734**	**835,432**	**(50,363)**	**621,534**	**5,627,337**
Transactions with equity holders, recognized directly in equity							
Payment of dividends for preferred shares	-	-	-	-	-	(604,620)	**(604,620)**
Employee share in profit	-	-	-	-	-	(18,093)	**(18,093)**
	-	**-**	**-**	**-**	**-**	**(622,713)**	**(622,713)**
Other							
Actuarial gains from prior years (Note 38)				141,732		(141,732)	**-**
Other (foreign exchange effects)	3	-	(166,716)	21,705	(500)	199,917	**54,409**
	3	**-**	**(166,716)**	**163,437**	**(500)**	**58,185**	**54,409**
Balance at December 31, 2014	**17,191,528**	**22,843,084**	**21,117,846**	**4,260,173**	**(237,874)**	**6,925,972**	**72,100,729**

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 29, 2015.
Signed on behalf of Komercijalna banka a.d., Beograd by:

Savo Petrović
CFO

Ivica Smolić
Executive Board Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2014
(Thousands of RSD)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**28,021,728**	**28,014,924**
Interest receipts	21,775,054	21,979,938
Fee and commission receipts	6,016,498	5,784,379
Receipts of other operating income	229,408	247,243
Dividend receipts and profit sharing	768	3,364
Cash used in operating activities	**(20,649,146)**	**(21,257,791)**
Interest payments	(8,455,712)	(9,342,167)
Fee and commission payments	(1,047,845)	(999,876)
Payments to, and on behalf of employees	(4,528,929)	(4,834,263)
Taxes, contributions and other duties paid	(856,507)	(1,008,550)
Payments for other operating expenses	(5,760,153)	(5,072,935)
Net cash inflows from operating activities prior to changes in loans and deposits	**7,372,582**	**6,757,133**
Decrease in loans and increase in deposits received and other liabilities	**33,807,770**	**25,339,114**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	5,624,610	-
Decrease in financial assets initially recognized at fair value through profit and loss, held for trading	-	1,655,401
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	28,183,160	23,683,713
Increase in loans and decrease in deposits received and other liabilities	**(4,786,862)**	**(24,244,136)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	-	(24,244,136)
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	(4,786,862)	-
Net cash generated by operating activities before income taxes	**36,393,490**	**7,852,111**
Income taxes paid	(18,218)	(738,741)
Dividends paid	(481,710)	(269,195)
Net cash generated by operating activities	**35,893,562**	**6,844,175**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	**18,500,189**	**14,567,190**
Proceeds from investment securities	18,487,730	14,553,472
Proceeds from the sales of intangible assets, property, plant and equipment	12,459	13,718
Cash used in investing activities	**(50,607,338)**	**(33,892,271)**
Cash used for investment securities	(50,095,346)	(33,075,772)
Cash used for investments in subsidiaries and associates and joint ventures	-	(976)
Cash used for the purchases of intangible assets, property, plant and equipment	(511,992)	(815,523)
Net cash used in investing activities	**(32,107,149)**	**(19,325,081)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**209,112,020**	**219,924,010**
Inflows from the borrowings	209,112,020	219,924,010
Cash used in financing activities	**(209,072,271)**	**(206,324,296)**
Cash used in the repayment of borrowings	(209,072,271)	(206,324,296)
Net cash generated by financing activities	**39,749**	**13,599,714**
TOTAL CASH INFLOWS	289,441,707	287,845,238
TOTAL CASH OUTFLOWS	(285,615,545)	(286,726,430)
NET CASH INCREASE	**3,826,162**	**1,118,808**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**42,723,039**	**41,438,204**
FOREIGN EXCHANGE GAINS	1,917,335	1,311,611
FOREIGN EXCHANGE LOSSES	(570,266)	(1,145,584)
CASH AND CASH EQUIVALENTS, END OF YEAR	**47,896,270**	**42,723,039**

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 29, 2015.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Savo Petrović
CFO

Ivica Smolić
Executive Board Chairman

1. ESTABLISHMENT AND ACTIVITY OF THE BANKING GROUP

Komercijalna banka a.d., Beograd (hereinafter the “Parent Bank”), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991 and later re-registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991. The Parent Bank’s tax identification number is 100001931.

The principal holders of voting shares in the Parent Bank are as follows:

Republic of Serbia	41.74%
EBRD, London	24.43%

The Parent Bank has three subsidiaries with the following equity interests:

- 100% - Komercijalna banka a.d., Budva, Montenegro
- 100% - KomBank INVEST a.d.,Beograd, Serbia
- 99.998 % - Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina

Minority owner (non-controlling interest) of Komercijalna banka a.d., Banja Luka with 0.002% equity interest is the Republic of Serbia Export Credit and Insurance Agency.

The consolidated financial statements and notes to the consolidated financial statements represent information of the Parent Bank, of Komercijalna banka a.d., Budva, Montenegro, Komercijalna banka a.d., Banja Luka and Investment Fund Management Company KomBank Invest a.d., Beograd (jointly the “Group“).

Komercijalna banka a.d., Budva was established as an affiliate of Komercijalna banka a.d., Beograd in November 2002 and entered into the Central Register maintained by the Commercial Court of Podgorica at March 6, 2003. Its corporate ID number is 02373262.

Komercijalna banka a.d., Banja Luka was established in September 2006 and registered with the Court Register under the relevant decision of the Basic Court in Banja Luka at September 15, 2006. Its corporate ID number is 11009778.

The Investment Fund Management Company KomBank Invest a.d., Beograd was founded in December 2007 and registered at February 5, 2008. Its corporate ID number is 20379758.

The Group’s activities include crediting activities, deposit and guarantee activities and payment transfer operations in the country and abroad in accordance with the Law on Banks, as well as investment fund managing activities. The Group is obligated to operate based upon principles of liquidity, safety and profitability.

As of December 31, 2014 the Group was comprised of the Central Office in Belgrade at the address of no.14, Svetog Save St. head office of Komercijalna banka a.d., Budva in Budva at the address of PC Podkošljun bb, head office of Komercijalna banka a.d., Banja Luka in Banja Luka at the address of no. 6, Veselina Masleše St., head office of Investment Fund Management Company KomBank Invest a.d., Beograd in Belgrade, at the address of no. 19, Kralja Petra St.; 38 branch offices and 240 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina

As of December 31, 2014 the Group had 3,178 employees (December 31, 2013: 3,233 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the Law on Accounting (hereinafter referred as: the "Law", Official Gazette of the Republic of Serbia no. 63/2013). As a large legal entity, the Parent Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance and which were in effect as at December 31, 2013.

The amendments to IAS, as well as the newly issued IFRS and the related interpretations issued by the IASB and the IFRIC, in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (the "Ministry") on October 5, 2010 and published in the Official Gazette of the Republic of Serbia no. 77/2010. The Ministry's Decision dated March 13, 2014 adopted the translation of the Conceptual Framework for Financial Reporting and (the "Conceptual Framework," adopted by the IASB in September 2010, which supplants the Framework for Preparation and Presentation of the Financial Statements) and basic texts of IAS and IFRS ("Decision on Adoption of the Translations of the Conceptual Framework for Financial Reporting and Basic Texts of International Accounting Standards and International Financial Reporting Standards," published the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations"), encompassing amendments to IAS and new IFRS and related interpretations issued by IASB and IFRIC/effective as of December 31, 2013. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

Standards and interpretations issued that came into effect in the current period pursuant to the Decision on Adoption of the Translations are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying consolidated financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of the Republic of Serbia nos. 71/2014 and 135/2014).

These consolidated financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Parent Bank adhered to the accounting policies described in Note 3.

In 2014 the Group members maintained their books of account and prepared stand-alone financial statements in accordance with the local legislation, other regulations based on the International Accounting Standards, (IAS) and International Financial Reporting Standards (IFRS) as well as pursuant to the regulations of the competent central banks and regulatory bodies. The respective stand-alone annual financial statements were audited by external auditors, whose reports expressed unqualified opinions thereof in accordance with the effective regulations.

For the purpose of preparing the consolidated financial statements, the stand-alone financial statements of the subsidiary banks were adapted to the presentation of the financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia.

Such consolidated financial statements were approved for issue by the Executive Board of Komercijalna banka a.d., Beograd on April 29, 2015.

The Group's consolidated financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts herein are stated in thousands of RSD and rounded to the nearest thousand.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements (Continued)

Functional currencies - EUR from the financial statements of Komercijalna banka a.d., Budva and BAM from the financial statements of Komercijalna banka a.d., Banja Luka - have been translated into the reporting currency, i.e. the Parent Bank's functional currency – dinar (RSD) using the officially published exchange rates in the Republic of Serbia.

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations of the Ministry

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);

- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);

- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);

- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);

- "Conceptual Framework for Financial Reporting 2010" being amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations of the Ministry (Continued)

- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);

- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);

- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);

- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations of the Ministry (Continued)

- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);

- Amendments to various standards “Improvements to IFRSs (2009-2011 Cycle)” issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);

- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013); and

- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014).

2.3. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 “Financial Instruments” and subsequent amendments, supplanting the requirements of IAS 39 “Financial Instruments: Recognition and Measurement“ with regard to classification and measurement of financial assets. This standard eliminates the categories existing under IAS 39 – assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  In accordance with IFRS 9, financial assets shall be classified in one of the following two categories upon initial recognition: financial assets at amortized cost or financial assets at fair value. A financial asset shall be measured at amortized cost if the following two criteria are met: financial assets relate to the business model whose objective is to collect the contractual cash flows and the contractual terms provide the basis for collection at certain future dates of cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets shall be measured at fair value. Gains and losses on the fair value measurement of financial assets shall be recognized in the profit and loss statement, except for investments in equity instruments which are not traded, where IFRS 9 allows at initial recognition a subsequently irreversible choice to recognize changes in fair value within other gains and losses in the statement of comprehensive income. An amount recognized in such a manner within the statement of comprehensive income cannot subsequently be recognized in profit and loss.

  Given the nature of the Bank’s operations, the adoption of the standard is expected to have a significant impact on the Bank’s financial statements.

- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016);

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

- IFRS 15 “Revenue from Contracts with Customers,” defining the framework for revenue recognition. IFRS 15 supplants IAS 18 “Revenue,” IAS 11 “Construction Contracts,” IFRIC 13 “Customer Loyalty Programs,” IFRIC 15 “Agreements for the Construction of Real Estate” and IFRIC 18 “Transfers of Assets from Customers.” IFRS 15 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);

- IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1, 2014);

- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014); and

- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014).

2.4. Going Concern

The consolidated financial statements were prepared on a going concern assumption entailing the Group’s continuation of operations for an indefinite period in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by the Group members to all periods presented in these financial statements.

(a) Consolidation

The Parent Bank has control over the following legal entities, which are consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d., Budva, Montenegro	100%
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	99.99%
Investment Fund Management Company KomBank Invest a.d., Beograd, Serbia	100%

The consolidated income statement and consolidated cash flow statement have been recalculated at the average exchange rate in the Republic of Serbia for the year 2014 of RSD 117.2478 for EUR 1 and RSD 59.9478 for BAM 1, while the other consolidated financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) were recalculated by applying the closing exchange rate effective as of the balance sheet date of RSD 120.9583 for EUR 1, i.e., RSD 61.8450 for BAM 1.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into dinars at the spot middle exchange rates effective at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

		In RSD
	2014	**2013**
USD	99.4641	83.1282
EUR	120.9583	114.6421
CHF	100.5472	93.5472
BAM	61.8450	58.6156

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, each Group member estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on investment securities available for sale.

Interest income and expenses on all trading assets and liabilities are considered to be incidental to the Group members' trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and Commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, issue and use of payment cards, issue of guarantees, letters of credit and other banking services.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Net Trading Income

Net trading income comprises gains less losses, related to trading assets and liabilities, and includes all realized and unrealized fair value changes and foreign exchange differences.

(f) Net income from Other Financial Instruments at Fair Value through Profit or Loss

Net income from other financial instruments at fair value through profit or loss, relates to financial assets and liabilities designated at fair value through profit or loss and includes all realized and unrealized fair value changes.

(g) Dividends

Income from dividends is recognized at the moment of economic benefits inflow arising from dividends. Dividends are reported under other income.

(h) Operating and Finance Lease Payments

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously in future periods.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Tax Expenses (Continued)

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, Group members pay various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under “other operating expenses”.

(j) Financial Assets and Liabilities

(i) Recognition

The Group members initially recognize loans and receivables, deposits, borrowings and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognized on the balancing date at which the relevant entity becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, for items that are not carried at fair value through profit or loss.

(ii) Classification

The Group members classified their financial assets into the following categories: financial assets held for trading, loans and receivables and investment securities – please refer to accounting policies 3(l), 3(m) and 3(n).

The Group members classify financial liabilities as measured at amortized cost or held for trading – please refer to accounting policy 3(t).

(iii) Derecognition

The Group members derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group member neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Group member is recognized as a separate asset or liability in the balance sheet. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

A Group member enters in transactions whereby it transfers assets recognized on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which a Group member neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group member continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset. A Group member derecognizes a financial liability when it is settled, cancelled or ceded.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, a Group member has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(iv) Offsetting (Continued)

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the trading activities of the Group members.

(v) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any impairment.

(vi) Fair Value Measurement

The fair values stated for financial instruments are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When available, the Group members measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group members establish fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to a Group member, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group member calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price, and liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of a Group member and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that a Group member believes a third-party market participant would take them into account in pricing a transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vii) Identification and Measurement of Impairment

At reporting date the Group members assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by a bank on terms that a bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

A Group member considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group members use statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Movements on provisions for impairment losses attributable to the time value are included as a component of the interest rate.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Group members write off certain loans and receivables and investment securities when they are determined to be uncollectible (see Note 4.1).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group members in the management of their current liquidity.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(l) Trading Assets and Liabilities

Trading assets and liabilities are those assets and liabilities that the Group members acquire or incur principally for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the balance sheet, with transaction costs directly recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets were not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may have been reclassified out of the fair value through profit or loss, i.e. trading category, if they were no longer held for the purpose of being sold or repurchased in the near term and either of the conditions below were met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the legal entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

Derivatives

Financial derivatives comprise forward and swap transactions. Financial derivatives are initially recognized at cost and are subsequently measured at market value. Market values are ascertained based on quoted prices on an active market, as well as by using different valuation techniques, including discounted cash flows. Financial derivatives are accounted for under assets if their market value is positive, and under liabilities if their market value is negative. Fluctuations in market value of financial assets are reported in the income statement, under net trading income.

(m) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group members do not intend to sell immediately or in the near term. They arise when a bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Approved dinar loans which are hedged using a contractual currency clause linked to the dinar EUR exchange rate, to another foreign currency or consumer price index are converted into dinars at balance sheet date in accordance with the terms of the particular loan agreement. The effects of the currency conversion are reported under trading income and expenses. Loans and receivables are presented net of specific and collective allowances for impairment. Specific and collective allowance, are made against the carrying amount of loans and receivables that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investment Securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, at fair value through profit or loss, or as available for sale.

(i) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group members have the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent a Group member from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value,
- sales or reclassifications after a Group member has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond a Group member's control that could not have been reasonably anticipated.

(ii) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by a Group member as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that a Group member acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

(iii) Available- for- Sale Financial Assets and Equity Investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial asset. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Unless there is an active market for financial assets available for sale, these are measured at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when a Group member becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investment Securities (Continued)

(iii) Available- for- Sale Financial Assets and Equity Investments (Continued)

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired (long and continuing decline in the fair value in the period longer than twelve months, as well as decline above 30% of cost), as well as the cumulative loss that had been recognized in equity shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized (IAS 39.59, IAS 39.67 and IAS 39.68).

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if a Group member has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

(o) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Following initial recognition items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Following initial recognition, property is measured at valuation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed regularly in order to ensure that net book value does not differ significantly from reported amounts that would result from using the fair value approach at the end of reporting period.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to a Group member and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Property and Equipment (Continued)

(iii) Depreciation (Continued)

The estimated depreciation rates for the current and comparative periods were as follows:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.5%
Computer equipment	4	25%
Furniture and other equipment	5 – 15	10%-15.5%
Leasehold improvements	1 – 11	4.25%-86.2%

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Maintenance costs for assets are recognized in the profit or loss in the period when occurred.

(p) Intangible Assets

Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 5 years and amortization rates used range between 14.29% and 33.34%.

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(q) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost of acquired investment property comprises the purchase price and all expenses that can be directly attributed to the acquisition of the asset.

For subsequent measurement of investment property the Group members use the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5%. Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Assets Acquired in Lieu of Debt collection and Assets Held for Sale

Assets are classified as held for sale if the carrying amounts thereof can be recovered primarily through a sales transaction and not through further usage.

Non-current assets held for sale are measured at the lower of the carrying value or fair value less costs to sell. If such an asset is not sold within a year from the initial recognition date, its carrying value is adjusted to the fair value as well as in instances of impairment, when the recoverable amount of the asset decreases below its carrying value.

Collection of receivables through acquisition of movable and immovable assets, in instances of receivables securitized with mortgages, trust deeds or pledge liens or another type of collateral, is performed based on a court ruling and/or purchase and sale contract arising from out-of-court settlement or auction purchase.

Movable and immovable assets acquired in lieu of debt collection are recognized in the books of account as inventories of assets acquired in lieu of debt collection intended for sale within a year.

Such assets are initially measured at the lower of:

- gross amount of receivables underlying the acquisition of assets, and
- appraised value of such assets (as per appraisal not older than a year) less costs to sell.

Exceptionally, when assets are acquired as per court ruling in the amount lower than the gross amount of receivables claims, such assets are measured at the value stated in the relevant court ruling. In addition, an appraisal of the acquired assets is performed as soon as possible, at the end of the current year at the latest.

After the initial recognition, the carrying values of assets acquired in lieu of debt collection are adjusted to their fair values as well as in instances of impairment of assets, when their carrying values drop below their recoverable amounts.

To assets acquired in lieu of debt collection and non-current assets held for sale, the Group members implement the procedures of mandatory fair value assessment by qualified experts before the sale. The fair value assessment is made by a qualified external expert if an existing appraised value is over a year old in order to arrive at the framework for sale pricing.

Based on the qualified experts' assessments of the value of assets acquired in lieu of debt collection and assets held for sale, the carrying values of such assets are adjusted to their fair values in accordance with the requirements of IFRS 5.

(s) Leases

The Group members appear as lessees in leasing agreements. The Group members classify leases as financial leasing when the lease agreement stipulates that the basic risks and benefits of ownership over the leased assets are transferred to the lessee. All other leasing agreements are classified as operating leases.

Lease agreements that relate to lease of office space in which the Group members' branches are located primarily relate to operating leases. All payments made during the year based on operating leases are reported as an expense in the statement of comprehensive income on a straight line basis over the duration of the lease period.

Assets that are held based on a finance lease agreement are recognized as the Group members' assets at the lower of their fair value or the present value of minimum lease payments specified at the start of the lease agreement. The corresponding liability toward the lessor is reported in the statement of financial position as a finance lease liability. Lease payments are apportioned between the finance expense and the reduction of the outstanding finance lease liability, such that a constant interest rate is achieved on the outstanding portion of the liability. The financial expense is reported directly as a period expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, borrowings and subordinated liabilities are the Group's main sources of financing.

The Group members classify capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

(v) Provisions

A provision is recognized if, as a result of a past event, a Group member has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(w) Employment Benefits

In accordance with regulatory requirements, the Group members are obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Group members are also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Group members are under obligation to pay their vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2014 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

(y) Equity and Reserves

The Group's equity consists of founders' capital, shares of subsequent issues, share premium, reserves, fair value (revaluation) reserves, retained earnings and current year's profit.

The Group's equity is comprised of funds invested by the Parent Bank's founders and minority founder of Komercijalna banka a.d., Banja Luka in pecuniary form. A founder cannot withdraw funds invested in the Group's equity.

(z) Earnings per Share

The Parent Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of all dilutive preferred shares and dividing it by the weighted average number of ordinary shares outstanding.

(zz) Segment Reporting

An operating segment is a component of the Group – a Group member – that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by Parent Bank's management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate audited financial statements are available.

Moreover, an operating segment is an operating unit of the Group engaged in operating activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other operating units. For the Group's operating segments discrete financial information in accordance with the Parent Bank's methodology is available (Note 6.2.).

4. RISK MANAGEMENT

The Banking Group has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment.

Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Group's aptitude to assume risk in accordance with the adopted strategies and policies.

4. RISK MANAGEMENT (Continued)

The basic objectives that the Group set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Group's activities in accordance with business opportunities and market development with a view to gain competitive advantage.

The Group implements Basel II standards and permanently monitors all the announcement and amendments to the effective regulations, analyses the risk levels and undertakes measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Group. Through the clearly defined process of introducing new products, the Group analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Group's financial result.

Risk Management System

The risk management system is governed by the following internal enactments:

- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other enactments.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Banking Group's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk assumption and management;
- Basic principles of the process of internal assessment of the Group's capital adequacy; and
- Overview and definitions of all types of risk the Group is exposed to or may be exposed to.

The Banking Group specified the basic principles of risk management for meeting its long-term objectives:

- Organizing operation of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular operating activities of the Group;
- Comprehensive risk management;
- Effective risk management;
- Cyclic risk management;
- Developing risk management as a strategic orientation; and
- Risk management as a part of corporate culture.

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the Banking Group and clear division of personnel responsibilities in all stages of the process;
- Manner of assessing the Banking Group's risk profile and methodology for identifying, measuring and assessing risks;
- Manners of risk monitoring and control and establishing the system of limits, i.e. types of limits the Banking Group uses as well as their structure;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the process of internal assessment of the Banking Group's capital adequacy;
- Principles of the system of internal controls; functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

4. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the Parent Bank and Banking Group members in the risk management system.

Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management and capital management strategy, establishment of internal control system, supervision of the work of the Executive Board and execution of the process of internal capital adequacy assessment.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Parent Bank and the Group are exposed to. The Executive Board reports to the Board of Directors on implementation efficiency of defined management risk procedures.

The Audit Committee is authorized and responsible for continued monitoring of application and adequate implementation of risk management policies and procedures, and for implementing the internal control system of the Parent Bank and the Group. The Audit Committee at least monthly reports to the Board of Directors on its activities, irregularities, and propose how they will be removed.

The Asset and Liability Committee (ALCO) is authorized and responsible for monitoring the risk exposure resulting from the structure of the Group member's receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks. Each Group member has its own Asset and Liability Committee.

The Credit Committee decides on loan requests in accordance with the Parent Bank's internal acts, it analyzes the Parent Bank's exposure to credit, interest rate and currency risk, it analyzes the credit portfolio and implements the recommendations of the internal audit under the Committee's remit, and also suggests adequate measures to the Parent Bank's Executive Board. Each Group member has its own Credit Committee, which makes decisions within its remit and limits.

The Work-Out Committee of the Parent Bank is authorized and responsible for managing risk weighted loans; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors of the Parent Bank in instances of loans in excess of its limits of authorization. Each Group member has its own Credit Committee to make decisions on risk-weighted loans.

The Risk Management Organizational Unit defines and proposes for adoption the risk management strategy, policies, procedures and methodologies, identifies, measures, mitigates, monitors, controls and reports on the risks the Parent Bank and the Group are exposed to. It is also in charge of developing models and methodologies of risk management and reporting to the competent Banking Group's bodies.

The Parent Bank's Treasury is responsible for managing assets and liquidity, as well as assets and liabilities on the Group level. It also participates in the liquidity risk management and interest rate and currency risk management.

The Internal Audit Division is responsible for continued monitoring of implementation of risk management policies and procedures on the Group level, and tests the adequacy of procedures and the Group members' compliance with them. The Internal Audit reports its findings and recommendations to the Audit Committee and the Board of Directors.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Compliance Control Division is obligated to identify and assess at least annually compliance risks of the Parent Bank and Group members against the Annual Business Plan adopted by the Board of Directors and proposes risk management plans, of which it prepares a report and submits it to the Executive Board and Board for Monitoring of the Parent Bank's Operation. This report is adopted by the Executive Board and submitted to the Board of Directors for their information. The Banking Group members have organizational units for risk management, asset management and internal audit.

Risk Management Process

The Banking Group regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks.

For all risks identified the Banking Group determines their significance based on as comprehensive assessment of risks in the Banking Group's particular operations, products, activities and processes.

Risk alleviation or mitigation involves risk diversification, transfer, minimization and or avoidance; the Banking Group performs risk mitigation in accordance with its risk profile and risk appetite.

Risk monitoring and control is based on limits that are set by the Banking Group. They in turn depend on business strategy and the business environment, as well as on the level of risk that the Group is ready to accept.

Risk management reports are regularly submitted to: the Board of Directors, Executive Board, Audit Committee, ALCO and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the risks. Group members report to the Parent Bank's risk management organizational unit on a monthly basis.

Risk Types

In its regular course of business, the Banking Group is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Banking Group's regular operations.

4.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank.

The Group members have defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology. Loans are approved depending on the target market, borrower characteristics and loan purpose.

Prior to loan approval, each Group member assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the Group member's competent bodies enact a loan approval decision in accordance with the defined decision making system.

In decision making the principle of double control, the so-called "four eyes principle," is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management

According to the volume, type and complexity of its operations, the Group has organized the credit risk management process and clearly delineated employee responsibilities in all stages of the process.

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Group as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Group members have also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

The level of credit risk exposure acceptable to the Group is in line with the defined risk management strategy and depends on the Group's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.

The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Group's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Group's financial result and capital;
- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In their effort to manage credit risk all Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting their receivables.

All Group members perform quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio analysis, support in loan approval and loan impairment procedure as well as in estimating provisions against losses per off-balance sheet items for the purpose of loan and investment ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

For adequate and efficient management of the risks they are exposed to, the Parent Bank and Group members also comply with the principles prescribed by their respective central banks, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses.

Alleviating credit risk entails maintaining the risk at the level acceptable to the Group's risk profile, i.e. maintaining acceptable quality level of the Group's loan portfolio.

Basic credit risk alleviating techniques are:

- Exposure limits – concentration risk;
- Investment diversification; and
- Collaterals.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

The exposure limits per individual debtor are based on the assessment of the debtor's credit-worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Group members continuously control credit risk movements within a defined risk profile. In instances of exceeding the internal limits, the Group members submit explanations thereof and propose measures and action plans, while the Parent Bank notifies the Executive Board on the aforesaid excess of limits. Group members are obligated to inform the Parent Bank on any extraordinary circumstances in their operations that may occur due to the adverse local market trends, political and economic crises and the like.

Concentration risk includes: large exposure (exposure to a single entity or a group of related entities and the Group's related parties), group exposures with the same or similar risk factors such as industry sectors, types of products, geographic areas and the like, country risk and credit risk hedges.

The Parent Bank performs continuous control and monitoring of the exposure risk at the Group's portfolio level, within regulatory prescribed limits. In instances of exceeding the prescribed limits, the Parent Bank determines the causes thereof, informs the Executive Board thereof and proposes to the Parent Bank's Executive Board protective measures against the exposure risk.

At the Group level, investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring loan quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality. The Group members also continuously monitor and review adequacy of the process of loan rating and classification into risk groups according to the extent of recoverability.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, both on a daily and monthly bases, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Group members undertake the following steps in respect to collection of due receivables: loan rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; execution of agreements with interested third parties; and instigation of court proceedings and other measures.

If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Group initiates write-off of the remaining receivables.

Apart from credit risk exposure, the Group also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Group has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Group uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system:

- The Group members report to the Parent Bank on a monthly basis;
- The Parent Bank reports on a consolidation basis, semi-annually and annually.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

Downgrade Risk

The quality of the Group's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 17 subcategories. Different exposures to the same borrower are grouped in the same credit rating category irrespective of the specificities of different loan types.

The Group uses varying credit rating models depending on the borrower type. Credit rating is calculated on monthly basis based on the qualitative and quantitative parameters and timely and regular liability settlement.

A low level of risk implies doing business with customers with a high credit rating (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating category 3), and a high level of risk characterizes customers with negative operating results and poor credit rating (risk rating categories 4 and 5).

The Group protects itself against downgrade risk through continuous monitoring of customers' business operations and by identifying changes that could arise through: deterioration of a borrower's financial standing, delays in repayment and changes in the business environment, as well as by securing appropriate collaterals.

Risk of Change in Value of Assets

Allowance for impairment of loans is intended to ensure reasonable, cautious and timely registering of losses on loan impairment, as well as to intervene in respect of contingent liabilities with a view to protect the Bank in the period when the loss occurs and is definitely confirmed (realized), due to inability to collect contracted amounts or through outflow of assets to settle contingent liabilities.

Allowance for impairment of loans and provisions are made when there is justification and objective evidence of impairment arising as the result of events that occurred after initial recognition of a loan, that have a negative effect on future cash flows associated with a loan.

Key elements in assessing impairment of loans are as follows: overdue payments on principal or interest, cash flow difficulties on the part of the borrower, the borrower's credit rating deterioration or changes in the initial terms of contract etc.

Allowance for impairment is based on estimated future cash flows from the borrower's business operations or collateral foreclosure if it is assessed that a loan can be realistically settled from such assets.

The Group members assess allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

Each Group member assesses impairment of each individually significant loan and considers the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Group member will be settled, ad hoc assessment of loan impairment is performed.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Group-Level Assessment

Impairment is assessed on a group basis for loans that are not individually significant and for individually significant loans and advances, when there is no objective evidence of individual impairment. Group assessment is performed monthly within groups that are determined based on internal methodology and internal rating system. Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product.

Impairment of loans decreases the value of loans and is recognized as an expense in the income statement.

Assessment of Provisions for Probable Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities.

In assessing provisions for contingent losses on off-balance sheet items, funds obtained by activating collaterals are recognized if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2014 and 2013 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum Credit Risk Exposure before Collateral or any Other Improvements

	December 31, 2014		December 31, 2013	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**440,425,629**	**414,668,645**	**391,807,978**	**369,960,157**
Cash and cash funds held with the central bank	72,633,528	72,633,528	75,136,496	75,136,496
Loans and receivables due from banks and other financial institutions	36,102,850	35,733,988	36,005,866	35,680,426
Loans and receivables due from customers	228,397,640	203,828,648	215,838,596	195,554,454
Financial assets	99,590,860	99,470,437	59,574,337	59,528,893
Other assets	3,700,751	3,002,044	5,252,683	4,059,888
II. Off-balance sheet items	**32,294,161**	**31,693,332**	**32,500,565**	**32,013,573**
Payment guarantees (Note 39.1)	5,547,353	5,394,823	7,987,466	7,913,066
Performance bonds (Note 39.1)	8,138,838	7,977,118	5,941,473	5,813,134
Irrevocable commitments	17,808,782	17,800,489	17,664,541	17,660,993
Other items	799,188	520,902	907,084	626,380
Total (I+II)	**472,719,790**	**446,361,977**	**424,308,543**	**401,973,730**

The largest credit risk is associated with the executed loan arrangements; however, the Group is exposed to credit risk based on off-balance sheet items resulting from commitments and contingent liabilities.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

Loans and receivables due from customers, banks and other financial institutions

December 31, 2014	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	4,188,899	4,188,899	28,242,290
Loans matured and not provided for	-	-	-	-	-	-	1,557,306	1,557,306	7,204,378
Group-level impaired	39,668,295	16,271,559	5,519,250	7,680,924	6,962,684	76,102,711	96,577,801	172,680,513	656,183
Individually impaired	1,126,483	65,382	94,069	11,026	2,660,064	3,957,024	46,013,898	49,970,922	-
Total	**40,794,778**	**16,336,941**	**5,613,319**	**7,691,950**	**9,622,748**	**80,059,736**	**148,337,904**	**228,397,640**	**36,102,851**
Impairment allowance	**680,405**	**1,186,686**	**445,233**	**831,337**	**1,616,707**	**4,760,367**	**19,808,625**	**24,568,992**	**368,863**
Group-level impairment allowance	527,831	1,176,461	422,238	831,071	1,187,147	4,144,747	8,873,660	13,018,407	368,863
Individual impairment allowance	152,574	10,225	22,995	266	429,560	615,619	10,934,965	11,550,585	-
Net carrying value	**40,114,373**	**15,150,255**	**5,168,087**	**6,860,613**	**8,006,041**	**75,299,369**	**128,529,279**	**203,828,648**	**35,733,988**

Note: According to the internal segmentation, the retail segment includes private individuals, entrepreneurs, micro-sized entities and agricultural producers.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

Loans and receivables due from customers, banks and other financial institutions

December 31, 2013	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	13,871,198	13,871,198	34,266,326
Loans matured and not provided for	-	-	-	-	-	-	10,872,773	10,872,773	1,008,450
Group-level impaired	35,798,160	13,580,820	4,435,027	8,452,241	6,510,067	68,776,315	78,934,000	147,710,315	724,118
Individually impaired	657,276	56,672	37,487	9,322	2,301,032	3,061,790	40,322,520	43,384,310	7,030
Total	**36,455,436**	**13,637,493**	**4,472,514**	**8,461,563**	**8,811,100**	**71,838,105**	**144,000,491**	**215,838,596**	**36,005,924**
Impairment allowance	**626,430**	**970,160**	**325,810**	**736,201**	**1,487,237**	**4,145,837**	**16,138,304**	**20,284,142**	**325,498**
Group-level impairment allowance	474,441	953,173	313,096	736,150	1,165,097	3,641,956	9,847,178	13,489,134	325,498
Individual impairment allowance	151,989	16,986	12,714	52	322,140	503,881	6,291,127	6,795,008	-
Net carrying value	**35,829,005**	**12,667,333**	**4,146,705**	**7,725,361**	**7,323,863**	**67,692,268**	**127,862,187**	**195,554,454**	**35,680,426**

Note: According to the internal segmentation, the retail segment includes private individuals, entrepreneurs, micro-sized entities and agricultural producers.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

Impaired Loans and Receivables

Impaired loans and receivables are those for which the Group members have determined the existence of objective evidence of impairment and do not expect them to be collected in full amounts of principal and interest matured pursuant to the relevant loan agreements. Loans and receivables are impaired on both an individual and a group basis.

Receivables Matured but not Impaired

Loans and receivables matured but not impaired represent those loans and receivables where there is default in settling liabilities for contractually agreed interest or principal outstanding (the report shows the entire receivable amount as matured for any matured portion of principal or interest). The Parent Bank believes that it is not appropriate to make impairment allowance for such receivables given that there is certainty of collection.

Receivables not Matured and not Impaired

Loans and receivables not matured and not impaired are those determined as ineligible for impairment allowance given the probability of default status and certainty of collection by the Group members (loans and receivables due from the Republic of Serbia and the Ministry of Finance of the Republic of Srpska).

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

Loans and receivables due from customers, banks and other financial institutions, not matured and not impaired

December 31, 2014	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	4,188,899	4,188,899	28,219,356
Medium (IR 3)	-	-	-	-	-	-	-	-	22,935
Total	**-**	**-**	**-**	**-**	**-**	**-**	**4,188,899**	**4,188,899**	**28,242,290**

December 31, 2013	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	9,411,025	9,411,025	34,231,041
Medium (IR 3)	-	-	-	-	-	-	4,460,173	4,460,173	35,284
Total	**-**	**-**	**-**	**-**	**-**	**-**	**13,871,198**	**13,871,198**	**34,266,326**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

Loans and receivables due from customers, banks and other financial institutions, matured but not impaired

December 31, 2014	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	1,375,310	1,375,310	7,204,378
31 - 90 days past due	-	-	-	-	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-	181,996	181,996	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**1,557,306**	**1,557,306**	**7,204,378**

December 31, 2013	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	10,194,102	10,194,102	1,008,450
31 - 90 days past due	-	-	-	-	-	-	73,340	73,340	-
Over 90 days past due	-	-	-	-	-	-	605,330	605,330	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**10,872,773**	**10,872,773**	**1,008,450**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.2. Loans with Altered Initially Agreed Terms

Loans with altered initially agreed terms are loans rescheduled and/or restructured due to the borrowers' difficulties in servicing liabilities as these fall due. Considering such difficulties, the Group members decide on altering the terms and deadlines stipulated by loan agreements giving the borrowers the opportunity to discharge liabilities more easily.

Rescheduling of receivables is performed for debtors with currently mismatching cash inflows and outflows, yet whose financial indicators have not deteriorates suggesting that the debtor will be able to settle the rescheduled liabilities according to the subsequently agreed repayment terms. Receivables are rescheduled if due from debtors up to 90 days in default, most commonly per individual loan subaccount, i.e. not including all the receivables due from the same debtor (not all loan subaccounts).

Restructuring is performed for loans due from debtors with significant problems in business where financial indicators are substantially deteriorating. Upon restructuring:

- All balance sheet receivables due from the debtor or a greater portion thereof are replaced;
- Terms whereunder the relevant receivable was approved are essentially altered (which particularly entails extension of the period for repayment of principal or interest, decrease in interest rate applied or the amount receivable and other modifications of terms which are to facilitate the position of a debtor);
- Adoption of an adequate financial consolidation program is mandatory.

The following table presents total amount of loans with altered initially agreed terms as of December 31, 2014 and 2013. The stated values are presented in gross and net carrying amounts (after impairment effects).

Loans with altered initially agreed terms, gross

	Rescheduled				Restructured			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Housing loans	657,284	609,387	631,155	590,340	153,798	145,617	84,024	71,651
Cash loans	236,848	213,044	214,582	195,598	40,721	28,648	44,644	32,911
Agricultural loans	65,924	57,632	137,523	123,176	32,673	29,229	41,370	36,647
Other loans	23,068	22,447	31,405	30,562	15,273	14,505	1,089	968
Micro businesses	522,946	430,387	596,247	477,253	433,929	372,987	444,936	403,002
Total retail	**1,506,070**	**1,332,897**	**1,610,912**	**1,416,929**	**676,394**	**590,986**	**616,063**	**545,179**
Corporate customers	24,824,759	24,251,419	28,253,480	27,686,742	17,248,429	12,828,553	12,074,259	7,480,531
Total	**26,330,829**	**25,584,316**	**29,864,392**	**29,103,670**	**17,924,823**	**13,419,539**	**12,690,322**	**8,025,710**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.2. Loans with Altered Initially Agreed Terms (Continued)

Credit quality of rescheduled loans and receivables (gross)

	December 31, 2014			December 31, 2013		
	Loans and receivables	Rescheduled and restructured receivables	%	Loans and receivables	Rescheduled and restructured receivables	%
Not matured and not impaired	4,188,899	-	-	13,871,198	892,791	6.44%
Matured but not impaired	1,557,306	-	-	10,872,773	-	-
Group-level impaired	172,680,513	24,093,390	13.95%	147,710,315	22,879,148	15.49%
Individually impaired	49,970,922	20,162,262	40.35%	43,384,310	18,782,776	43.29%
Total	**228,397,640**	**44,255,652**	**19.38%**	**215,838,596**	**42,554,714**	**19.72%**
Impairment allowance	**24,568,992**	**5,251,797**	**21.38%**	**20,284,142**	**5,425,334**	**26.75%**
Group-level impairment allowance	13,018,407	454,386	3.49%	13,489,134	2,480,198	18.39%
Individual impairment allowance	11,550,585	4,797,411	41.53%	6,795,008	2,945,136	43.34%
Securitized with collaterals	**191,567,490**	**37,337,677**	**19.49%**	**167,575,984**	**32,589,620**	**19.45%**

4.1.3. Concentration Risk

The Group manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographic regions, single entities or groups of related entities, collaterals…). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.3. Concentration Risk (Continued)

Breakdown of loans and receivables due from customers, banks and other financial institutions and commitments per industry is provided below:

	Loans and receivables				Off-balance sheet items			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Finance and insurance sector	**12,266,474**	**12,159,949**	**11,133,466**	**10,990,181**	**292,092**	**292,091**	**955,646**	**955,646**
Corporate and public company sector	**128,865,181**	**117,577,989**	**129,266,323**	**115,904,167**	**21,887,165**	**21,296,705**	**21,291,044**	**20,808,389**
Agriculture	6,704,231	6,430,156	6,350,753	6,009,622	562,860	296,126	789,799	528,302
Processing industry	54,699,077	48,205,029	48,329,417	41,096,747	4,175,688	4,123,741	4,624,018	4,548,507
Power industry	6,910,426	6,909,493	9,304,951	9,304,147	979,209	979,108	781,666	781,586
Construction industry	5,877,592	5,399,560	6,432,492	5,767,782	7,730,105	7,613,719	4,421,075	4,369,388
Wholesale and retail	38,458,752	35,049,540	41,247,084	37,376,971	6,182,757	6,053,044	8,719,397	8,647,645
Services industries	13,750,430	13,261,821	14,913,516	13,801,948	1,514,960	1,495,887	1,193,290	1,179,303
Real estate business	2,464,673	2,322,389	2,688,110	2,546,950	741,587	735,080	761,799	753,657
Entrepreneurs	**2,927,946**	**2,632,189**	**2,345,186**	**2,077,705**	**439,521**	**435,145**	**416,703**	**413,706**
Public sector	**16,285,108**	**16,248,700**	**17,640,142**	**17,567,130**	**395,441**	**394,444**	**339,398**	**339,377**
Retail sector	**70,464,159**	**67,320,500**	**63,008,670**	**60,350,361**	**8,764,227**	**8,759,233**	**8,679,608**	**8,678,541**
Non-residents	**16,603,359**	**16,258,631**	**20,517,180**	**20,216,112**	**105,098**	**105,098**	**635,722**	**635,722**
Other customers	**17,088,260**	**7,364,677**	**7,933,495**	**4,129,224**	**410,617**	**410,617**	**182,444**	**182,192**
Total	**264,500,490**	**239,562,636**	**251,844,462**	**231,234,880**	**32,294,161**	**31,693,332**	**32,500,565**	**32,013,573**

Depending on general economic trends and individual industry sector trends, the Group members diversify investments into the industry sectors that are resistant to the impact of adverse economic trends.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.3. Concentration Risk (Continued)

Breakdown of loans and receivables due from customers, banks and other financial institutions and commitments per geographic area is provided below:

	Loans and receivables				Off-balance sheet items			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Serbia	219,704,972	196,611,282	198,876,288	180,039,848	30,046,297	29,477,873	30,230,781	29,757,130
Montenegro	7,080,721	6,317,535	7,765,076	6,861,425	1,318,283	1,302,816	785,612	778,235
Bosnia and Herzegovina	10,944,571	10,222,406	10,403,556	9,848,730	811,797	794,859	1,178,529	1,172,565
European Union	16,326,339	16,324,009	16,603,055	16,600,560	64,244	64,244	191,827	191,827
USA and Canada	454,386	191,260	659,632	439,719	45,916	45,916	108,023	108,023
Other countries	9,989,498	9,896,144	17,536,855	17,444,598	7,624	7,624	5,793	5,793
Total	**264,500,490**	**239,562,636**	**251,844,462**	**231,234,880**	**32,294,161**	**31,693,332**	**32,500,565**	**32,013,573**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.4. Financial Assets

	December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net
Financial assets:				
- at fair value through profit and loss, held for trading	121,634	121,634	115,577	115,319
- available for sale	98,959,283	98,958,788	58,989,185	58,986,673
- held to maturity	509,944	390,015	469,574	426,901
	99,590,860	**99,470,437**	**59,574,337**	**59,528,893**

Financial assets at fair value through profit and loss held for trading relate to the Republic of Serbia's old foreign currency savings bonds, corporate and bank shares and investment units. These assets are measured using the methodology of adjusting to the market prices (mark to market) or internally developed valuation models (mark to model), depending on the availability of daily changing prices or whether they are subject of continuous trading.

Available-for-sale financial assets represent financial instruments which are intended to be held over an indefinite time period and which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. They mostly comprise Treasury bills and bonds issued by the Republic of Serbia, United Kingdom, the Republic of Srpska, local municipalities and bonds of other banks. Available-for-sale assets are initially measured at cost, and on a quarterly basis fair value thereof is determined based on the market prices for securities traded in active stock exchange (mark to market). Internally developed valuation models (mark to model) are used in instances that for certain financial instruments independent sources of market information are not available, and are based on the maturity of the security and the risk-free interest rate level.

Financial assets held to maturity relate to the bonds issued by Montenegro and discounted bills of exchange.

4.1.5. Credit Risk Hedges (Collaterals)

For the purpose of protection against credit risk, in addition to regular monitoring of the customer business operations, the Group also acquires security instruments (collaterals) to secure the collection of receivables and minimize credit risk. The collateral quantity and type depend on the assessed credit risk.

As a standard type of loan security instrument, each Group member demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, depending on the credit risk assessment and loan type, additional collaterals agreed upon include the following:

- for commercial loans – pledge liens instituted over movable assets and immovable property (mortgages), deposits, banking, corporate and state-issued guarantees, sureties, pledge liens instituted over securities, equity interests, receivables and livestock;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans for the Parent Bank's housing loans.

For valuation of property or pledges assigned over movable assets, the Group members hire certified appraisers in order to minimize potential risk of unrealistic valuation. Property, goods, equipment and other movables pledged must be insured by an insurance company acceptable to the Group and insurance policies must be duly endorsed in favor of the Group members.

For protection against changes in the market value of collaterals (mortgages, pledge liens, securities, etc.) the appraised collateral value is adjusted for the predefined haircut percentage dependent on the type and location of collateral, which is reviewed at least annually, or more frequently, as appropriate. This is how the Group protects itself from potential losses arising from inability to collect its receivables from collateral foreclosure.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals)(Continued)

The Group members monitor and update the values and trends in collaterals in order to minimize the risk of unrealistic valuation, if necessary, the bank may demand additional collateral in accordance with the executed loan agreements. Collaterals represent a secondary source of collection of receivables.

The following breakdowns present the value of collaterals as their fair values, only up to the loan gross amounts (in instances of collateral values exceeding the respective loan values). When collateral values are below the respective loan gross amounts, the values of collaterals are presented.

The values of collaterals and guarantees received to reduce credit risk exposures arising from the loans extended to customers are presented in the following table:

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals)(Continued)

Loans and receivables due from customers secured with collaterals

	December 31, 2014					December 31, 2013				
	Properties	Deposits	Guarantees	Other collaterals	Total	Properties	Deposits	Guarantees	Other collaterals	Total
Housing loans	33,583,778	61,466	-	4,867,522	38,512,765	31,094,535	47,362	-	2,523,189	33,665,086
Cash loans	373,630	301,798	-	3,242,179	3,917,608	272,121	316,901	-	1,464,269	2,053,291
Agricultural loans	2,877,933	20,500	120,694	1,455,592	4,474,719	2,353,578	48,984	113,342	861,773	3,377,677
Other loans	149,670	51,903	-	347,213	548,785	168,606	50,316	-	627,423	846,344
Micro business	3,996,271	558,944	8,882	5,004,701	9,568,799	4,476,201	518,759	50,464	2,644,687	7,690,112
Total retail loans	**40,981,282**	**994,611**	**129,576**	**14,917,207**	**57,022,676**	**38,365,041**	**982,322**	**163,807**	**8,121,341**	**47,632,509**
Corporate loans	62,860,117	1,281,209	8,751,614	61,651,875	134,544,815	75,306,380	1,221,364	9,443,573	33,972,157	119,943,474
Total	**103,841,399**	**2,275,820**	**8,881,190**	**76,569,082**	**191,567,490**	**113,671,421**	**2,203,685**	**9,607,380**	**42,093,498**	**167,575,984**

Note: A portion of the Parent Bank's housing loans secured with mortgages assigned over real estate properties is insured with the National Corporation for Housing Loans Insurance (2014: RSD 27.4 billion; 2013: RSD 25.5 billion).

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals)(Continued)

The ratio of the loan amount to the appraised value of the property held as collateral is monitored as loan to value ratio (LTV ratio).

Breakdown of housing loans per LTV ratio spread

	December 31, 2014	December 31, 2013
Below 50%	6,839,244	6,316,788
From 50% to 70%	8,452,740	7,257,871
From 71% to 100%	14,813,539	14,173,110
From 101% to 150%	5,544,481	4,245,322
Above 150%	2,368,052	1,224,361
Other	2,776,722	3,238,385
Total exposure	**40,794,778**	**36,455,436**
Average LTV ratio	**65.08%**	**64.26%**

4.1.6. Tangible Assets Acquired in Lieu of Debt Collection

Collaterals foreclosed by the Group members in the process of loan and receivable collection are provided below:

Collaterals foreclosed

	2014.	2013.
Residential premises	932,338	474,763
Business premises	3,829,703	2,531,202
Equipment	106,469	101,805
Land and forests	615,984	380,236
Total	**5,484,494**	**3,488,006**
Accumulated depreciation	(475,929)	(243,045)
Net book value	**5,008,565**	**3,244,961**

In 2014, in the process of debt collection the Group members foreclosed collaterals totaling RSD 3,002,589 thousand (2013: RSD 1,403,917 thousand).

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Group's financial result and equity resulting from the Group's difficulty or inability to settle its matured liabilities in instances of insufficient liquidity reserves and inability to cover for unexpected outflows and other liabilities.

The Group operates in accordance with the basic principles of liquidity, maintaining a sufficient level of funds to cover liabilities incurred in the short term, i.e. it observes the principle of solvency by establishing the optimal financial leverage and sufficient liquidity reserves which do not compromise realization of the projected return on equity.

Liquidity risk is manifest as the mismatch of the inflow of assets on one end and the maturities of liabilities on the other, including the possibility of delays in expected inflows as well as that of unexpected outflows. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

The Group has established appropriate organizational structure, which allows for clear differentiation between the process of assuming and the process of managing liquidity risk. The Parent Bank's Asset and Liability Management Committee and Liquidity Committee have the most significant role therein as well as other competent boards/committees, whose decisions can impact the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- Diversifies sources of assets in respect to their currencies and maturities;
- Forms sufficient liquidity reserves;
- Manages monetary funds;
- Monitors future cash flows and liquidity levels on a daily basis;
- Limits principal sources of credit risk with most significant impact on liquidity; and
- Defines and periodically tests Plans for Liquidity Management in Crisis Situations.

The liquidity management process comprises identification, measurement, minimizing, monitoring, control and liquidity risk reporting.

In identifying liquidity risk, the Group identifies in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk determines current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement and assessment of liquidity risk in the Bank is performed through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

- GAP analysis;
- Ratio analysis; and
- Stress test.

Minimizing liquidity risk consists of maintaining this risk at a level that is acceptable to the Group's risk profile through definition of the system of exposure limits including both internal and statutory limits and timely implementation of measures to mitigate the risk and operation within the set internal and external limits.

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally defined limits, and monitoring of defined measures for reducing the Group's exposure to liquidity risk. Liquidity risk control involves the control at all liquidity risk management levels as well as the independent control system implemented by the Group's organizational units responsible for internal audit and compliance monitoring.

Liquidity risk reporting consists of internal and external reporting systems and is performed on a daily basis and a set schedule according to the defined system. .

The Group's operations are reconciled daily with legally prescribed liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. The Group also monitors compliance with the regulatory prescribed rigid/cash liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7 as the average liquidity ratio for all working days in a month.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	2014	2013	2014	2013
As at December 31	2.79	3.43	2.47	3.04
Average for the period	3.24	2.74	2.83	2.43
Maximum for the period	4.29	3.85	3.97	3.34
Minimum for the period	1.71	1.76	1.52	1.55

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

During 2014 the Group's liquidity ratio and cash liquidity ratio were both well above the prescribed limits.

The Group sets internal limits, based on the internal reporting on liquidity GAP for all balance sheet components.

Compliance with last day liquidity ratio limits internally defined:

	Limits	2014	2013
GAP up to 1 month / Total assets	Max (10%)	10.86%	12.74%
Cumulative GAP up to 3 months / Total assets	Max (20%)	11.87%	8.09%

In addition, the Group limits and coordinates its operations with the limits defined for maturity per major foreign currencies.

Maturity structure of monetary assets and monetary liabilities as of December 31, 2014

	Up to month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	72,633,528	-	-	-	-	**72,633,528**
Loans and receivables due from banks and other financial institutions	35,452,043	12,540	21,609	236,314	11,482	**35,733,988**
Loans and receivables due from customers	37,834,376	13,303,273	52,441,079	62,927,575	37,322,345	**203,828,648**
Financial assets (securities)	11,175,649	10,268,161	24,500,762	45,108,215	8,417,650	**99,470,437**
Other assets	2,425,902	-	573,664	2,478	-	**3,002,044**
Total	**159,521,498**	**23,583,974**	**77,537,114**	**108,274,582**	**45,751,477**	**414,668,645**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,735,422	549,318	4,067,305	12,804,354	2,091,365	**26,247,764**
Deposits and other liabilities due to customers	156,357,682	28,254,316	89,280,004	43,274,813	3,927,393	**321,094,208**
Subordinated liabilities	-	-	-	6,036,680	-	**6,036,680**
Other liabilities	2,825,232	-	256,458	-	-	**3,081,690**
Total	**165,918,336**	**28,803,634**	**93,603,767**	**62,115,847**	**6,018,758**	**356,460,342**
Net liquidity gap						
As of December 31, 2014	**(6,396,839)**	**(5,219,660)**	**(16,066,653)**	**46,158,735**	**39,732,719**	**58,208,303**
As of December 31, 2013	**14,725,976**	**(12,536,633)**	**(27,532,444)**	**44,239,642**	**35,377,419**	**54,282,320**

The report on the maturity structure of monetary assets and liabilities includes monetary balance sheet items distributed according to maturities outstanding, i.e. the conservative assumption was used that all transaction and demand deposits will be withdrawn within one month.

The Group collects deposits of corporate and retail customers which commonly have shorter maturity periods and can be withdrawn at the client request. Short-term nature of such deposits increases the Group's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In near term, the Group manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves. The Group's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof.

The Group regularly tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2014

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	72,633,528	-	-	-	-	72,633,528
Loans and receivables due from banks and other financial institutions	41,767,035	12,996	22,101	274,828	5,186	42,082,146
Loans and receivables due from customers	38,188,898	15,593,512	60,499,057	81,411,509	52,505,167	248,198,143
Financial assets (securities)	11,605,538	10,998,094	26,291,608	49,053,239	8,801,278	106,749,757
Other assets	2,425,907	-	573,664	2,476	-	3,002,047
Total	**166,620,906**	**26,604,602**	**87,386,430**	**130,742,052**	**61,311,631**	**472,665,621**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,769,805	720,307	4,794,234	13,878,225	2,337,061	28,499,632
Deposits and other liabilities due to customers	151,922,102	29,069,813	93,815,221	50,190,731	4,146,732	329,144,599
Subordinated liabilities	-	-	-	6,649,699	-	6,649,699
Other liabilities	2,825,231	-	256,460	-	-	3,081,691
Total	**161,517,138**	**29,790,120**	**98,865,915**	**70,718,655**	**6,483,793**	**367,375,621**
Net liquidity gap						
As of December 31, 2014	**5,103,768**	**(3,185,518)**	**(11,479,485)**	**60,023,397**	**54,827,838**	**105,290,000**
As of December 31, 2013	**34,940,993**	**(10,348,421)**	**(21,675,550)**	**59,868,114**	**47,466,280**	**110,246,412**

Undiscounted cash flows arising from the items of monetary assets and monetary liabilities include future cash flows per balance sheet items and future interest. In the case of transaction deposits and demand deposits, which, observing the conservative approach, are categorized into deposits with maturities of up to a month, the undiscounted cash flows include only the cash flows from the debt principal outstanding.

4. RISK MANAGEMENT (Continued)

Market Risks

Market risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk for all business operations and price risk for all items in the trading book.

The Group is exposed to price risk, interest rate risk, currency risk, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments that the Bank holds for trading or to hedge other financial instruments that are maintained in the trading book.

The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming market risks and the process of managing those risks. The Asset and Liability Management Committee (ALCO) and Investment Committee have the most significant role therein as well as other competent boards/committees of the Parent Bank and Group members, whose decisions can impact the Group's exposure to this risk.

4.3. Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Group's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations. The exposure to this risk depends on the relation between the interest rate sensitive assets and liabilities.

The Group manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Group is exposed due to changes in yield curve shape;
- Basis risk – to which the Group is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics; and
- Optionality risk – to which the Group is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

The basic objective of interest rate risk management is maintaining the acceptable level of interest rate risk exposure from the aspect of the effect on the financial result, by conducting adequate policy of matching periods of interest rate repricing, matching adequate sources to investments per interest rate type and maturity, as well as projecting movements in the yield curve in both foreign and domestic markets. Primarily, the Group manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Group particularly considers the effects of interest rate changes and changes in the structure of interest-bearing assets and liabilities from the perspective of maturity, interest rate repricing and currency structure and manages the effect thereof on the economic value of equity.

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring, control and interest rate risk reporting.

Identification of interest rate risk consists of comprehensive and timely identification of the causes and factors that lead to the occurrence of interest rate risk, which includes determining current interest rate risk exposure, as well as interest rate risk exposure arising from new business products and activities.

4. RISK MANAGEMENT (Continued)

4.3. Interest Rate Risk (Continued)

Measurement and assessment of interest rate risk at the Group is performed through quantitative and/or qualitative assessment of identified interest rate risk by using the following techniques:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of equity; and
- Stress test.

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Group's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Group to the interest rate risk and implementing measures for interest rate risk mitigation.

Control and monitoring of interest rate risk entails the process of monitoring compliance with the established system of limits as well as monitoring defined measures for reducing the Group's exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Group members' interest rate risk management bodies.

Internal limits are determined based on the internal report on the interest rate GAP, which includes all the balance sheet items.

Compliance with internally defined interest rate risk limits at the last day was as follows:

	Limits	2014	2013
Relative GAP	Max 15%	1.41%	(3.11%)
Mismatch ratio	0.75 – 1.25	1.02	0.96

During 2014 the Group's interest rate risk ratios were within internally prescribed limits.

Compliance with internally defined limits of economic value of equity:

	2014	2013
As at December 31	7.92%	4.43%
Average for the year	7.28%	5.14%
Maximum for the year	7.92%	5.85%
Minimum for the year	6.63%	4.43%
Limit	20%	20%

4. RISK MANAGEMENT (Continued)

4.3. Interest Rate Risk (Continued)

The exposure to interest rate risk can be reviewed through the Report on Interest Rate GAP in monetary assets and liabilities as follows:

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2014:

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	26,854,092	-	-	-	-	**26,854,092**	45,779,436	**72,633,528**
Loans and receivables due from banks and other financial institutions	33,179,879	12,550	20,923	-	11,480	**33,224,832**	2,509,156	**35,733,988**
Loans and receivables due from customers	91,746,395	16,790,091	51,256,489	21,210,224	18,542,339	**199,545,539**	4,283,109	**203,828,648**
Financial assets (securities)	12,305,597	20,217,220	17,438,120	39,682,189	8,341,562	**97,984,688**	1,485,749	**99,470,437**
Other assets	-	-	-	-	-	**-**	3,002,044	**3,002,044**
Total	**164,085,963**	**37,019,861**	**68,715,532**	**60,892,413**	**26,895,381**	**357,609,151**	**57,059,494**	**414,668,645**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,804,866	6,728,396	11,974,863	733,010	3,500	**26,244,634**	3,130	**26,247,764**
Deposits and other liabilities due to customers	160,657,196	25,458,830	86,524,434	43,563,921	1,573,112	**317,777,494**	3,316,714	**321,094,208**
Subordinated liabilities	-	-	6,036,680	-	-	**6,036,680**	-	**6,036,680**
Other liabilities	-	-	-	-	-	**-**	3,081,690	**3,081,690**
Total	**167,462,062**	**32,187,226**	**104,535,977**	**44,296,931**	**1,576,612**	**350,058,808**	**6,401,534**	**356,460,342**
Interest rate GAP:								
- at December 31, 2014	**(3,376,099)**	**4,832,635**	**(35,820,445)**	**16,595,482**	**25,318,769**	**7,550,343**	**50,657,960**	**58,208,303**
- at December 31, 2013	**(52,511,303)**	**(10,602,179)**	**(36,385,248)**	**36,319,057**	**51,632,192**	**(11,547,481)**	**65,829,801**	**54,282,320**

4. RISK MANAGEMENT (Continued)

4.3. Interest Rate Risk (Continued)

Interest rate risk GAP report of monetary sub-balance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.

The Group members' management believes that appropriate matching of items per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

Risk of changes in Interest Rates

In addition to the GAP analyses, interest rate risk management also entails monitoring the sensitivity of the Group's assets and liabilities to different scenarios of changes in interest rates. The Group performs regular interest rate risk stress testing to assess the estimated impact of the changes in the key factors on the Group's interest rate risk.

In scenario modelling, in addition to the changes in interest rates, particular consideration is given to the impact of early deposit withdrawal and early loan repayment, which the Group estimates based on historical trends and expert estimates. The Group estimated trends with regard to transaction deposits, demand deposits and savings deposits of retail customers using time series statistical modeling.

The standard scenario entails parallel changes (increases and decreases) in the interest rate by 100 basis points (b.p.). The Group's sensitivity analysis, i.e. impact on the Group's financial performance of the increase/decrease in the interest rates assuming symmetrical movement in yield curves and constant financial position is presented in the table below:

	Parallel increases by 100 b.p.	**Parallel decreases by 100 b.p.**
2014		
As at December 31	563,775	(563,775)
Average for the year	370,455	(370,455)
Maximum for the year	563,775	(563,775)
Minimum for the year	177,136	(177,136)
2013.		
As at December 31	449,936	(449,936)
Average for the year	387,485	(387,485)
Maximum for the year	449,936	(449,936)
Minimum for the year	325,033	(325,033)

4.4. Currency Risk

Currency risk represents the possibility of negative effects on the Group's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals. All items in the banking book and the trading book that are denominated in a foreign currency and gold, including dinar items indexed to foreign currency clause are exposed to currency risk.

In order to minimize the currency risk exposure, the Group diversifies the currency structure of its portfolio and currency structure of liabilities, reconciling open positions in certain currencies pursuant to the principles of maturity transformation.

4. RISK MANAGEMENT (Continued)

4.4. Currency Risk (Continued)

The Group has established appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk.

The process of currency risk management entails identifying, measuring, minimizing, monitoring, control and currency risk reporting.

The Group identifies in a comprehensive and timely manner the causes that lead to emergence of currency risk and includes the determination of current currency risk exposure, as well as currency risk exposure resulting from new business products and activities.

Measurement and assessment of currency risk in the Group is performed through quantitative and/or qualitative assessment of identified currency risk by using the following techniques:

- GAP analysis and currency risk ratio;
- VaR analysis;
- Stress test;
- Back testing.

Relieving foreign currency risk entails maintenance of risk at an acceptable level for the Group's risk profile through the establishment of a transparent system of limits and defining measures used to mitigate foreign currency risk.

Control and monitoring of the currency risk consists of observation and supervision of compliance with internally and externally defined limits as well as monitoring of defined and implemented measures. Continuous monitoring and control of foreign currency risk during the day ensures timely undertaking measures for the purpose of maintaining the currency risk within defined limits. Foreign currency risk control means control at all management levels as well as independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

Reporting on currency risk includes internal and external reporting systems. It is performed on a daily basis.

The Group reconciles its business operations with the prescribed foreign currency risk ratio, which represents the ratio between the total net foreign currency balance and the position of gold relative to the Group's regulatory capital.

Breakdown of the total currency risk balance and legally defined currency risk ratio at December 31:

	2014	2013
Total currency risk balance	6,511,704	6,894,093
Currency risk ratio	16.78%	17.16%
Legally-defined limit	20%	20%

4. RISK MANAGEMENT (Continued)

4.4. Currency Risk (Continued)

Breakdown of Monetary Assets and Monetary Liabilities per Currencies as of December 31, 2014

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currenc y Clause USD	Currency Clause u CHF	RSD Items	Total
Cash and cash funds held with the central bank	41,128,862	619,821	438,290	2,784,577	44,971,550	-	-	-	27,661,978	72,633,528
Loans and receivables due from banks and other financial institutions	21,785,413	1,656,880	940,769	1,009,102	25,392,164	-	-	-	10,341,824	35,733,988
Loans and receivables due from customers	19,080,082	72,317	-	3,228,535	22,380,934	121,299,864	-	5,717,903	54,429,947	203,828,648
Financial assets (securities)	55,529,787	6,534,761	1,397,811	617,010	64,079,369	512,557	-	-	34,878,511	99,470,437
Other assets	1,306,014	407,976	183	19,033	1,733,206	-	-	-	1,268,838	3,002,044
Total	**138,830,158**	**9,291,755**	**2,777,053**	**7,658,257**	**158,557,223**	**121,812,421**	**-**	**5,717,903**	**128,581,098**	**414,668,645**
Deposits and other liabilities due to banks, other financial institutions and the central bank	19,078,820	182,224	23,025	150,352	19,434,421	2,067,774	-	-	4,745,569	26,247,764
Deposits and other liabilities due to customers	221,941,073	8,006,806	8,351,079	3,947,344	242,246,301	8,053,841	690,265	2,475	70,101,326	321,094,208
Subordinated liabilities	6,036,680	-	-	-	6,036,680	-	-	-	-	6,036,680
Other liabilities	598,721	327,339	33,526	93,712	1,053,298	-	-	-	2,028,393	3,081,690
Total	**247,655,293**	**8,516,369**	**8,407,629**	**4,191,408**	**268,770,698**	**10,121,616**	**690,265**	**2,475**	**76,875,288**	**356,460,342**
Net currency position										
- December 31, 2014	**(108,825,135)**	**775,386**	**(5,630,576)**	**3,466,849**	**(110,213,475)**	**111,690,805**	**(690,265)**	**5,715,428**	**51,705,810**	**58,208,303**
- December 31, 2013	**(114,442,677)**	**65,859**	**(5,673,026)**	**3,657,191**	**(116,392,653)**	**115,660,700**	**(56,634)**	**5,703,061**	**49,367,846**	**54,282,320**

4. RISK MANAGEMENT (Continued)

4.5. Ten-Day VaR

The Group also conducts currency risk stress testing to estimate the potential effects of specific events and/or changes in more than one financial variable on the Group's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Group's portfolio during a specified period with a predefined confidence interval. The Group calculates a one day and a ten day VaR, with a 99% confidence interval for foreign currency positions (currency VaR). In order to estimate the regulatory capital adequacy requirements regarding currency risk, the Group calculates the VaR by using the generalized autoregressive-conditional heteroskedastic (GARCH) model for which it did not request approval from the National Bank of Serbia.

Currency VaR is calculated for foreign currency items as well as currency clause-indexed RSD items in both the banking book and trading book.

The breakdown of ten-day VaR with confidence interval of 99% for 2014 and 2013 is presented in the table below:

	As of December 31	Average	Maximum	Minimum
2014				
Currency risk	47,241	10,701	62,464	2,452
2013				
Currency risk	6,530	26,804	118,951	2,396

4.6. Operational Risk

Operational risk represents the possibility of negative effects on the Group's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Group, inadequate management of information and other systems in the Group, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Group monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, agency services and asset management.

The process of operational risk management represents an integral part of the Group's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Group monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Group appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Group which is responsible for risk management monitors and reports operational risks to the Group's Board of Directors, the Group's Executive Board and the Audit Committee.

4. RISK MANAGEMENT (Continued)

4.6. Operational Risk (Continued)

Measurement and assessment of operational risk at the Group is done through quantitative and/or qualitative assessment of identified operational risk. The Group measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Group's exposure to operational risk.

The Group cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Group takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Group's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Group has established a system for monitoring the activities undertaken by the Group's organizational parts in order to reduce arising operational risks. The Group assess the risk of entrusting third parties with activities related to the Group's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

With the objective of smooth and continued operation of all significant systems and processes in the Group, and to limit losses that could be incurred in extraordinary circumstances, the Group adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Group adopted the Disaster Recovery Plan.

4.7. Investment Risks

The Group's investment risk relates to the risk of investing in other entities and capital expenditures. The Group's investments in a non-financial sector entity cannot exceed 10% of the Group's equity, whereby such investments entail investments through which the Group acquires equity interest or shares in a non-financial sector entity. The total Group's investment in non-financial sector entities and Group's own fixed assets cannot exceed 60% of the Group's equity, but this restriction does not apply to the acquisition of shares for further trading and sales thereof within six months from the acquisition date.

4.8. Exposure Risk

Large exposures of the Group to a single entity or a group of related entities, including Group's related parties, are exposures amounting to over 10% of the Group's capital.

In its operations, the Group takes care of the compliance with statutory exposure limits:

- The Group's exposure to a single entity or a group of related entities cannot exceed 25% of the Group's equity;
- The Group's exposure to a party that is related to the Group cannot exceed 5% of the Group's equity, while total exposure to the Group's related parties cannot exceed 20% of the Group's equity;
- The aggregate amount (sum) of the Group's large exposures cannot exceed 400% of the Group's equity.

The Group's exposure to a single party or a group of related parties, as well as exposure to the Group's own related parties, were within the prescribed limits.

4. RISK MANAGEMENT (Continued)

4.9. Country Risk

Country risk relates to the risk of the country of origin of the entity the Group is exposed to, i.e. the possibility of negative effects on the Group's financial result and equity due to inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin. Country risk includes the following risks:

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Group's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;

- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

Management of country risk is made per individual loans and receivables and at the Group's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Group's borrower's country of origin as defined by internationally recognized agencies, while measurement of portfolio exposure to country risk is based on setting limits to exposure in terms of a percentage of the Group's equity, depending on the internal country rating category. The Group measures and controls portfolio exposure to country risk by grouping receivables by default level of risk of the borrower countries of origin.

For the purpose of adequate country risk control, the Group defines exposure limits individually per borrower country of origin.

4. RISK MANAGEMENT (Continued)

4.10. Fair Value of Financial Assets and Liabilities

Breakdown of carrying values and fair values of financial assets and liabilities other than measured at fair value

	December 31, 2014					December 31, 2013	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets							
Loans and receivables due from customers	203,828,648	203,207,437	-	-	203,207,437	195,554,454	194,626,567
Financial assets held to maturity	390,015	390,015	-	-	390,015	426,901	426,901
Financial liabilities							
Deposits and other liabilities due to customers	321,094,208	310,012,734	-	-	310,012,734	283,075,277	274,401,381

Fair values of loans and receivables due from customers are estimated using the discounted cash flows model in instances of loans and receivables at fixed interest rates. Discounts rates are based on the current market interest rates applied to instruments offered under similar terms to borrowers with similar credit ratings. In addition, liabilities due to customers with defined maturities and contracted at fixed interest rates are discounted taking into account the prevailing terms according to the deposit types, terms and maturities.

Loans that are no longer approved and cannot be approved (loans indexed to CHF) are discounted at the same interest rates. In addition, loans approved at fixed interest rates subsidized by the Government were discounted at the same rate since the Group members would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the Group members' Business Policies.

Fair values of investment securities held to maturity are estimated using market prices or the discounted cash flows model based on current market interest rates applied to similar product instruments offered. Investment securities held to maturity have all matured resulting in the carrying values being equal to their fair values.

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December 31, 2014

4. RISK MANAGEMENT (Continued)

4.10. Fair Value of Financial Assets and Liabilities (Continued)

Financial instruments measured at fair value

				December 31, 2014
	Level 1	**Level 2**	**Level 3**	**Total assets / liabilities at fair value**
Assets				
Financial assets at fair value through profit and loss	121,634	-	-	121,634
Securities available for sale (RSD)	-	35,179,215	-	35,179,215
Securities available for sale (FX)	290,305	63,489,268	-	63,779,573
Total	**411,939**	**98,668,483**	**-**	**99,080,422**

				December 31, 2013
	Level 1	**Level 2**	**Level 3**	**Total assets / liabilities at fair value**
Assets				
Financial assets at fair value through profit and loss	115,319	-	-	115,319
Securities available for sale (RSD)	-	25,189,121	-	25,189,121
Securities available for sale (FX)	144,856	33,652,696	-	33,797,552
Total	**260,175**	**58,841,817**	**-**	**59,101,992**

Level 1 includes financial instruments traded in the stock exchange, while Level 2 includes securities whose fair values are estimated using the internally developed models based on the information from the auctions held in the secondary securities market (auctions).

Fair values of assets determined using the prices from the banking market are classified into Level 3.

4.11. Capital Management

The Group has established a risk management system in accordance with the volume and structure of its business activities and the capital management is aimed at unhindered achievement of the Group's business policy goals.

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel II Standards.

The Banking Group manages capital on an ongoing basis in order to:

- Maintain the minimum regulatory capital requirement (EUR 10 million);
- Comply with the prescribed capital adequacy ratio (minimum 12%);
- Maintain customer trust in the safety and stability of the Group's operations;
- Realize business and financial plans;
- Support the expected growth of loans and receivables due from customers;
- Ensure optimum future sources of funds and deployment thereof;
- Realize the dividend policy.

4. RISK MANAGEMENT (Continued)

4.11. Capital Management (Continued)

The Group's regulatory capital represents the sum of the core capital and supplementary capital, reduced for deductible items. The capital adequacy ratio represents the Group's capital relative to the sum of credit risk-weighted assets, foreign currency gap and operational risk exposure. Credit risk-weighted assets are determined according to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line. The capital requirement for the currency risk on the Banking Group level equals the sum of the individual capital requirements for the aforesaid risk of all Banking Group members, where the sum of the net open currency position and the absolute open position in gold exceeds 2% of the capital.

Capital adequacy ratio

	2014	**2013**
Core capital	34,335,837	46,429,841
Supplementary capital	4,669,970	4,988,153
Deductible items	(189,710)	(11,233,079)
Capital	**38,816,098**	**40,184,914**
Credit risk-weighted assets	185,240,046	182,663,248
Operational risk exposure	20,601,708	18,409,608
Foreign currency risk exposure	1,447,635	1,268,822
Capital adequacy ratio (minimum 12%)	**18.73%**	**19.86%**

In the course of 2014 the Group's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

Through its Capital Management Strategy and Capital Management Plan, the Banking Group ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and receivables, future sources of funding and their utilizations, dividend policy and changes in regulatory requirements.

As part of the system of capital management, the Capital Management Plan, includes the following:

- Strategic goals and schedule for realization thereof;
- Manner of organizing the process of available internal capital management;
- Procedures for planning adequate levels of available internal capital;
- Manner of attaining and maintaining adequate levels of available internal capital; and
- The Business Continuity Plan in case of unforeseen events.

The Group continuously implements processes of internal assessment of capital adequacy in accordance with the nature, volume and complexity of its business operations and in compliance with the adopted risk management strategy, individual risk management policies and capital management strategy.

As a documented and continuous process, internal assessment of capital adequacy meets the following criteria:

- it is based on risk identification and measurement;
- it provides comprehensive assessment and monitoring of risks the Banking Group is or may be exposed to;
- it provides adequate level of internally available capital according to the Banking Group's risk profile,
- it is included in the Banking Group's management system and decision making process; and
- it is subject to regular analysis, supervision and review.

4. RISK MANAGEMENT (Continued)

4.11. Capital Management (Continued)

Stages of the internal capital adequacy assessment include the following:

- determination of materially significant risks as per qualitative and quantitative criteria;
- calculation of the amounts of internal capital requirements;
- determination of the aggregate internal capital requirement;
- comparison of the following elements:
- capital to available internal capital;
- minimum prescribed capital requirements to internal capital requirements for individual risks; and
- sum of the minimum capital requirements to the aggregate internal capital requirement.

5. USE OF ESTIMATES

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key Sources of Estimation Uncertainty

Provisions for Credit Losses

Assets accounted for at amortized cost are assessed for impairment on a basis described in accounting policy 3(j) (vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and receivables and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(j) (vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical Accounting Judgments in Applying the Group's Accounting Policies

Critical accounting judgments made in applying the Group's accounting policies include:

Impairment of Investments in Equity Shares

Investments in equity shares are estimated for impairment in accordance with the method described under accounting policies 3(j) (vii) and 3(n).

5. USE OF ESTIMATES (Continued)

Critical Accounting Judgments in Applying the Group's Accounting Policies (Continued)

Valuation of Financial Instruments

The Group's accounting policy on fair value measurement is disclosed in accounting policy 3(j) (vi).

The Group members measures fair values using the following fair value hierarchy that reflects the significance of the inputs used valuation:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs other than quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group members determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

6. SEGMENT REPORTING

6.1. Segment Reporting – Group Members

As presented below, the Group has the total of four members representing the strategic organizational units of the Group:

Komercijalna banka a.d., Beograd, Serbia, Parent Bank	Involved in crediting activities, depository and guarantee activities and payment transfer operations in the country and abroad, as well as trading in securities and other financial instruments.
Komercijalna banka a.d., Budva, Montenegro	Involved in crediting activities, depository and guarantee activities and payment transfer operations in the country and abroad, as well as trading in securities and other financial instruments.
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	Involved in crediting activities, depository and guarantee activities and payment transfer operations in the country and abroad, as well as trading in securities and other financial instruments.
The Investment Fund Management Company KomBank INVEST a.d., Beograd, Serbia	Involved in investment fund managing activities.

Information on each reporting segment's results is presented in the following pages. Successfulness of business operation of each of the segments is based on the profit before taxes determined in the manner as presented within the internal reports to the management, which are subject to inspection and review of the Parent Bank's Executive Board and competent Management Boards of each Group member.

Each operating segment's result (profit or loss) is used to measure the performance, i.e., the successfulness of business operation, since the Parent Bank's management believes that such information is the most relevant for evaluation of a certain segment's result as compared to other legal entities involved in the aforesaid business activities and operating in the local market. Prices for inter-segmental settlement are determined under the market terms.

The Parent Bank monitors and discloses information on its operating segments – lines of business within its consolidated financial statements. The major portion of the Group's business operations is conducted in the territory of the Republic of Serbia. Subsidiaries are immaterial to the Parent Bank's stand-alone financial statements.

The Parent Bank's total balance sheet assets accounted for 92.9% of the total consolidated balance sheet assets (2013: 92.8%).

The total balance sheet assets of Komercijalna banka a.d., Budva accounted for 3.24% of the total consolidated balance sheet assets (2013: 3.18%), the total balance sheet assets of Komercijalna banka a.d., Banja Luka – 3.83% (2013: 4.0%) and those of KomBank Invest – 0.03% (2013: 0.02%).

Upon consolidation, all inter-company transaction balances were eliminated from the balance sheet in the amount of RSD 6,231,466 thousand (2013: RSD 6,317,466 thousand). From the income statements income totaling RSD 152,322 thousand (2013: RSD 397,068 thousand) was eliminated, as well as expenses amounting to RSD 28,367 thousand (2013: RSD 13,158 thousand):

6. SEGMENT REPORTING (Continued)

6.1. Segment Reporting – Group Members (Continued)

Balance Sheet - 2014

	Summary Unconsolidated Balance Sheet	Consolidated Balance Sheet Amount	Consolidated Balance Sheet
	436,933,575	**6,231,466**	**430,702,109**
Cash/liabilities		128,678	
Loans/liabilities		621,900	
Investments/equity		5,480,888	

Income Statement - 2014

	Summary Unconsolidated Profit within Income Statement (before taxes)	Consolidated Income Statement Amount		Consolidated Profit (before taxes)
		Income	Expenses	
	4,916,756	**152,322**	**28,367**	**4,792,801**
Interest		22,596	22,596	
Fees and commissions		5,771	5,771	
Foreign exchange effects		3,266	-	
Dividends		120,689		

Balance Sheet - 2013

	Summary Unconsolidated Balance Sheet	Consolidated Balance Sheet Amount	Consolidated Balance Sheet
	390,613,489	**6,317,466**	**384,296,023**
Cash/liabilities		161,272	
Loans/liabilities		675,306	
Investments/equity		5,480,888	

Income Statement - 2013

	Summary Unconsolidated Profit within Income Statement (before taxes)	Consolidated Income Statement Amount		Consolidated Profit (before taxes)
		Income	Expenses	
	4,784,552	**397,068**	**13,158**	**4,400,642**
Interest		8,143	8,143	
Fees and commissions		1,328	1,328	
Foreign exchange effects		-	3,687	
Dividends		387,597		

The Parent Bank's management reviews and controls internal reports to the management of each strategic organizational component of the Group at least on a monthly basis. What follows are the summaries of the operating segments' financial information and activities of each segment for 2014 and 2013.

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6. SEGMENT REPORTING (Continued)

A. BALANCE SHEET as of December 31, 2014

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	68,547,389	1,471,749	2,614,390	-	72,633,528
Financial assets at fair value through profit and loss, held for trading	121,634	-	-	-	121,634
Financial assets available for sale	95,481,249	2,290,164	1,187,375	-	98,958,788
Financial assets held to maturity	51,442	229,619	-	108,954	390,015
Loans and receivables due from banks and other financial institutions	34,125,456	1,321,213	287,319	-	35,733,988
Loans and receivables due from customers	185,377,035	6,366,527	12,085,086	-	203,828,648
Intangible assets	405,774	26,299	19,089	43	451,205
Property, plant and equipment	6,329,077	208,573	67,778	68	6,605,496
Investment property	2,581,144	-	130,069	-	2,711,213
Current tax assets	73,835	-	5,478	259	79,572
Deferred tax assets	-	-	-	5	5
Non-current assets held for sale and assets from discontinued operations	84,227	-	53,575	-	137,802
Other assets	6,990,222	2,025,298	34,219	476	9,050,215
Total assets	**400,168,484**	**13,939,442**	**16,484,378**	**109,805**	**430,702,109**
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the central bank	23,604,592	299,887	2,343,285	-	26,247,764
Deposits and other liabilities due to customers	301,954,911	9,687,203	9,452,094	-	321,094,208
Subordinated liabilities	6,036,680	-	-	-	6,036,680
Provisions	1,640,595	53,120	37,771	583	1,732,069
Current tax liabilities	-	14,726	-	-	14,726
Deferred tax liabilities	150,407	9,998	586	-	160,991
Other liabilities	3,189,109	66,997	58,163	673	3,314,942
Total liabilities	336,576,294	10,131,931	11,891,899	1,256	358,601,380
Equity					
Issued capital and share premium	40,034,550	-	-	-	40,034,550
Retained earnings/(accumulated losses)	5,980,128	966,155	1,355	(21,666)	6,925,972
Reserves	24,569,377	287,776	283,015	(28)	25,140,140
Non-controlling interests	-	-	67	-	67
Total equity	70,584,055	1,253,931	284,437	(21,694)	72,100,729
Total liabilities and equity	**407,160,349**	**11,385,862**	**12,176,336**	**(20,438)**	**430,702,109**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

6. SEGMENT REPORTING (Continued)

B. BALANCE SHEET as of December 31, 2013

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	70,934,839	1,602,176	2,599,481	-	75,136,496
Financial assets at fair value through profit and loss, held for trading	115,319	-	-	-	115,319
Financial assets available for sale	56,885,285	1,104,548	996,840	-	58,986,673
Financial assets held to maturity	149,900	171,963	-	105,038	426,901
Loans and receivables due from banks and other financial institutions	34,581,452	693,325	405,649	-	35,680,426
Loans and receivables due from customers	177,560,058	6,937,195	11,057,201	-	195,554,454
Intangible assets	537,445	18,357	33,122	86	589,010
Property, plant and equipment	6,577,670	212,902	81,918	111	6,872,601
Investment property	1,808,554	-	125,764	-	1,934,318
Current tax assets	712,700	-	12,068	242	725,010
Deferred tax assets	-	-	-	47	47
Non-current assets held for sale and assets from discontinued operations	71,630	-	4,338	-	75,968
Other assets	6,704,095	1,456,780	37,633	292	8,198,800
Total assets	**356,638,947**	**12,197,246**	**15,354,014**	**105,816**	**384,296,023**
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the central bank	20,888,447	175,709	2,163,217	-	23,227,373
Deposits and other liabilities due to customers	266,020,289	7,958,413	9,096,575	-	283,075,277
Subordinated liabilities	5,711,409	-	-	-	5,711,409
Provisions	765,132	44,357	25,463	359	835,311
Current tax liabilities	-	17,765	-	-	17,765
Deferred tax liabilities	10,156	2,975	-	-	13,131
Other liabilities	4,258,573	55,494	58,685	1,309	4,374,061
Total liabilities	297,654,006	8,254,713	11,343,940	1,668	317,254,327
Equity					
Issued capital and share premium	40,034,550	-	-	-	40,034,550
Retained earnings/(accumulated losses)	6,035,630	838,895	17,341	(22,900)	6,868,966
Reserves	19,683,269	204,745	250,103	-	20,138,117
Non-controlling interests	-	-	63	-	63
Total equity	65,753,449	1,043,640	267,507	(22,900)	67,041,696
Total liabilities and equity	**363,407,455**	**9,298,353**	**11,611,447**	**(21,232)**	**384,296,023**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

6. SEGMENT REPORTING (Continued)

C. INCOME STATEMENT – Year Ended December 31, 2014

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	21,201,809	761,069	814,094	14,515	22,791,487
Interest expenses	(7,925,768)	(204,481)	(225,187)	-	(8,355,436)
Net interest income	13,276,041	556,588	588,907	14,515	14,436,051
Fee and commission income	5,673,838	160,860	192,147	3,686	6,030,531
Fee and commission expenses	(956,714)	(34,207)	(55,023)	(647)	(1,046,591)
Net fee and commission income	4,717,124	126,653	137,124	3,039	4,983,940
Net gains on the financial assets held for trading	6,076	-	-	946	7,022
Net gains on the financial assets available for sale	51,282	-	27,963	-	79,245
Net foreign exchange losses and negative currency clause effects	(206,145)	5,958	(74)	(23)	(200,284)
Other operating income	448,502	21,158	9,165	19	478,844
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(2,725,389)	28,994	(125,063)	-	(2,821,458)
Total operating income	15,567,491	739,351	638,022	18,496	16,963,360
Staff costs	(4,211,489)	(251,793)	(271,413)	(10,574)	(4,745,269)
Depreciation and amortization charge	(844,632)	(35,136)	(52,997)	(86)	(932,851)
Other expenses	(5,897,850)	(293,710)	(294,492)	(6,387)	(6,492,439)
Profit before taxes	4,613,520	158,712	19,120	1,449	4,792,801
Current income tax expense	-	(14,726)	(8,280)	(142)	(23,148)
Gains on created deferred tax assets and decrease in deferred tax liabilities	47,547	-	-	-	47,547
Losses decrease in deferred tax assets and created deferred tax liabilities	(19,559)	(2,222)	-	(42)	(21,823)
Profit for the year	**4,641,508**	**141,764**	**10,840**	**1,265**	**4,795,377**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

6. SEGMENT REPORTING (Continued)

D. INCOME STATEMENT – Year Ended December 31, 2013

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	22,016,968	788,558	826,657	14,515	23,646,698
Interest expenses	(9,093,199)	(173,664)	(251,375)	-	(9,518,238)
Net interest income	12,923,769	614,894	575,282	14,515	14,128,460
Fee and commission income	5,492,175	156,824	176,158	2,131	5,827,288
Fee and commission expenses	(927,770)	(25,777)	(43,742)	(718)	(998,007)
Net fee and commission income	4,564,405	131,047	132,416	1,413	4,829,281
Net gains on the financial assets held for trading	22,342	-	-	484	22,826
Net gains on the financial assets available for sale	1,738	-	-	-	1,738
Net foreign exchange losses and negative currency clause effects	(47,544)	2,807	9,136	9	(35,592)
Other operating income	735,949	29,050	10,009	26	775,034
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(3,220,075)	(70,419)	(69,226)	-	(3,359,720)
Total operating income	14,980,584	707,379	657,617	16,447	16,362,027
Staff costs	(4,262,123)	(233,828)	(279,272)	(9,672)	(4,784,895)
Depreciation and amortization charge	(792,648)	(31,696)	(54,103)	(526)	(878,973)
Other expenses	(5,730,058)	(263,760)	(297,973)	(5,726)	(6,297,517)
Profit before taxes	4,195,755	178,095	26,269	523	4,400,642
Current income tax expense	-	(17,765)	(6,864)	(50)	(24,679)
Gains on created deferred tax assets and decrease in deferred tax liabilities	87,950	605	-	483	89,038
Losses decrease in deferred tax assets and created deferred tax liabilities	-	(3,063)	-	-	(3,063)
Profit for the year	**4,283,705**	**157,872**	**19,405**	**956**	**4,461,938**

6. SEGMENT REPORTING (Continued)

6.2. Report per Operating Segments

Report per operating segments for 2014 is provided below:

	Retail Banking	Corporate Banking	Investment Banking and Inter-Bank Operations	Other	Total
External revenues and expenses					
Interest, fee and commission income	11,039,951	10,626,307	7,155,760	-	28,822,018
Interest, fee and commission expenses	(5,267,277)	(2,277,909)	(1,856,841)	-	(9,402,027)
Net impairment reversal gains/(impairment losses)	(382,120)	(2,437,099)	(2,239)	-	(2,821,458)
Net foreign exchange gains/(losses)			(200,284)	-	(200,284)
Other income/(expenses) net	241,787	89,948	21,940	-	353,675
Profit before operating expenses	**5,632,341**	**6,001,247**	**5,118,336**	**-**	**16,751,924**
Direct operating expenses	(6,096,555)	(1,768,295)	(369,458)	-	(8,234,308)
Net income/(expenses) from inter-segment transactions	2,303,754	(3,428,395)	1,124,641	-	-
Profit net of direct operating expenses and inter-segment transactions	**1,839,540**	**804,557**	**5,873,519**	**-**	**8,517,616**
Indirect operating expenses	(2,079,192)	(1,273,211)	(372,412)	-	(3,724,815)
Profit before taxes	**(239,652)**	**(468,654)**	**5,501,107**	-	**4,792,801**
Assets per segment					
Cash and cash funds held with the central bank	-	-	72,633,528	-	72,633,528
Loans and receivables due from banks and other financial institutions	-	-	35,733,988	-	35,733,988
Loans and receivables due from customers	62,409,233	141,419,415	-	-	203,828,648
Investment securities	-	-	99,470,437	-	99,470,437
Other	**-**	**-**	-	19,035,508	19,035,508
	62,409,233	**141,419,415**	**207,837,953**	**19,035,508**	**430,702,109**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	26,247,764	-	26,247,764
Deposits and other liabilities due to customers	216,146,708	104,947,500	-	-	321,094,208
Subordinated liabilities	-	-	6,036,680	-	6,036,680
Other		-	-	5,222,728	5,222,728
	216,146,708	**104,947,500**	**32,284,444**	**5,222,728**	**358,601,380**

6. SEGMENT REPORTING (Continued)

6.2. Report per Operating Segments (Continued)

Report per operating segments for 2013 is provided below:

	Retail Banking	Corporate Banking	Investment Banking and Inter-Bank Operations	Other	Total
External revenues and expenses					
Interest, fee and commission income	10,501,751	12,798,539	6,173,696	-	29,473,986
Interest, fee and commission expenses	(5,921,889)	(2,521,184)	(2,073,172)	-	(10,516,245)
Net impairment reversal gains/(impairment losses)	(241,744)	(3,164,017)	46,041	-	(3,359,720)
Net foreign exchange gains/(losses)			(35,592)	-	(35,592)
Other income/(expenses). net	266,992	98,402	23,815	-	389,209
Profit before operating expenses	**4,605,110**	**7,211,740**	**4,134,788**	**-**	**15,951,638**
Direct operating expenses	(5,789,042)	(1,607,050)	(319,515)	-	(7,715,607)
Net income/(expenses) from inter-segment transactions	2,312,653	(4,124,184)	1,811,531	-	-
Profit net of direct operating expenses and inter-segment transactions	**1,128,721**	**1,480,506**	**5,626,804**	**-**	**8,236,031**
Indirect operating expenses	(2,134,802)	(1,313,319)	(387,268)	-	(3,835,389)
Profit before taxes	**(1,006,081)**	**167,187**	**5,239,536**	-	**4,400,642**
Assets per segment					
Cash and cash funds held with the central bank	-	-	75,136,496	-	75,136,496
Loans and receivables due from banks and other financial institutions	-	-	35,680,426	-	35,680,426
Loans and receivables due from customers	56,465,181	139,089,273	-	-	195,554,454
Investment securities	-	-	59,528,893	-	59,528,893
Other	**-**	**-**	-	18,395,754	18,395,754
	56,465,181	**139,089,273**	**170,345,815**	**18,395,754**	**384,296,023**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	23,227,373	-	23,227,373
Deposits and other liabilities due to customers	194,795,589	88,279,688	-	-	283,075,277
Subordinated liabilities	-	-	5,711,409	-	5,711,409
Other		-	-	5,240,268	5,240,268
	194,795,589	**88,279,688**	**28,938,782**	**5,240,268**	**317,254,327**

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets whose Fair Value Approximates the Carrying Value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and financial instruments at variable interest rates.

(ii) Fixed Rate Financial Instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates upon their initial recognition to the current market interest rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates.. There are no materially significant departures in this respect.

8. NET INTEREST INCOME

Net interest income includes:

	Year Ended December 31, 2014	2013
Loans and receivables due from banks	569,269	1,263,485
Loans and receivables due from customers	16,139,836	18,058,772
Central bank	588,725	711,647
Investment securities	5,493,657	3,612,794
Total interest income	22,791,487	23,646,698
Deposits from and liabilities due to banks	719,962	1,166,765
Deposits from and liabilities due to customers	6,498,595	7,445,066
Borrowings received	1,136,879	906,407
Total interest expenses	8,355,436	9,518,238
Net interest income	14,436,051	14,128,460

Total interest income and expenses calculated using the effective interest rate method presented in the table above relate to financial assets and liabilities other than those at fair value through profit or loss.

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	Year Ended December 31, 2014	2013
Fee and commission income in RSD		
Payment transfer operations	2,835,577	2,744,294
Fees on issued loans and guarantees - retail customers	20,011	21,602
Fees on issued loans and guarantees - corporate customers	259,847	249,650
Fees on purchase and sale of foreign currencies	443,916	542,380
Brokerage and custody fees	60,193	43,390
Fees arising from card operations	1,160,376	1,015,228
Credit Bureau processing fees	84,265	81,642
Other banking services	647,091	651,572
	5,511,276	5,349,758
Fee and commission income in foreign currencies		
Payment transfer operations	282,151	265,869
Fees on issued loans and guarantees - corporate customers	28,124	32,042
Brokerage and custody fees	2,195	3,098
Fees arising from card operations	116,582	94,891
Other banking services	90,203	81,630
	519,255	477,530
	6,030,531	5,827,288
Fee and commission expenses in RSD		
Payment for transfer operations	(206,287)	(213,196)
Fees arising on purchase and sale of foreign currencies	(19,437)	(51,282)
Fees arising from card operations	(273,557)	(235,321)
Credit Bureau processing fees	(64,802)	(65,184)
Other banking services	(127,501)	(114,927)
	(691,584)	(679,910)
Fee and commission expenses in foreign currencies		
Payment for transfer operations	(69,500)	(62,207)
Fees arising from card operations	(219,683)	(180,936)
Other banking services	(65,824)	(74,954)
	(355,007)	(318,097)
	(1,046,591)	(998,007)
Net fee and commission income	4,983,940	4,829,281

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	Year Ended December 31, 2014	2013
Gains on the fair value adjustment of securities – bonds	3,669	6,092
Gains on the fair value adjustment of securities – investment units	1,040	504
Gains on the fair value adjustment of securities – shares	426	958
Gains on the sales of securities at fair value through profit and loss	3,443	16,824
	8,578	24,378
Losses on the fair value adjustment of securities – shares	(508)	(290)
Losses on the fair value adjustment of securities – bonds	(532)	(1,262)
Losses on the fair value adjustment of securities – investment units	(49)	-
Losses on the sales of securities and other financial assets held for trading	(467)	-
	(1,556)	(1,552)
Net gains on the financial assets held for trading	7,022	22,826

11. NET GAINS ON FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

	Year Ended December 31, 2014	2013
Gains on the sale of securities available for sale	79,991	1,738
Losses on the sale of securities available for sale	(746)	-
Net gains on the financial assets available for sale	79,245	1,738

Gains on the sale of securities available for sale of RSD 79,991 thousand relate to the gains from the sale of old foreign currency savings bonds (2014 series) in the amount of RSD 8,248 thousand, the Republic of Serbia Treasury bills in the amount of RSD 43,780 thousand and the Republic of Srpska old foreign currency savings bonds and war reparation bonds in the amount of RSD 27,963 thousand.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2014	2013
Positive currency clause effects	4,993,387	4,551,137
Positive currency clause effects – value adjustment of securities	14,022	7,737
Foreign exchange gains – value adjustment of securities	27,065	421,001
Positive currency clause effects – retail customers	2,607,787	1,946,214
Foreign exchange gains	7,492,059	2,118,560
	15,134,320	9,044,649
Negative currency clause effects	(980,887)	(3,833,060)
Negative currency clause effects – value adjustment of securities	(3,392)	(7,452)
Negative currency clause effects – value adjustment of liabilities	(207,365)	(460,227)
Negative currency clause effects – retail customers	(343,072)	(1,716,465)
Foreign exchange losses	(13,799,888)	(3,063,037)
	(15,334,604)	(9,080,241)
Net foreign exchange losses and negative currency clause effects	(200,284)	(35,592)

13. OTHER OPERATING INCOME

Other operating income relates to:

	Year Ended December 31, 2014	2013
Gains on the valuation of property, plant and equipment	-	12,260
Reversal of unreleased provisions for litigations	-	382,768
Other income from operations	188,758	196,855
Other income	290,086	183,151
Total	478,844	775,034

Within the line item of other income the largest portion relates to the prior years' interest income from corporate customers and prior years' interest income from retail customers in the amount of RSD 185,661 thousand and RSD 47,132 thousand, respectively.

Within the line item of other income from operations in 2014, the amount of RSD 104,187 thousand relates to rental income (out of which RSD 96,827 thousand relates to income from properties leased out for business purposes).

14. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ASSETS

Net losses from impairment of financial assets relate to:

	Year Ended December 31, 2014	2013
Impairment allowance of loans and receivables	10,849,649	10,402,576
Provisions for off-balance sheet items	579,588	659,140
Write-off of loans and receivables	1,350	526
Reversal of impairment allowance of loans and receivables	(8,141,991)	(7,058,376)
Reversal of provisions for off-balance sheet items	(467,046)	(644,042)
Income from collection of receivables previously written-off	(92)	(104)
Total	2,821,458	3,359,720

Until the end of January 2015 the Group members did not have material collections of loans and receivables previously provided for or written off that would affect the reversal of impairment allowance in accordance with IAS 10.

MOVEMENTS ON IMPAIRMENT ALLOWANCE ACCOUNTS AND PROVISION FOR OFF-BALANCE SHEET ITEMS

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investment securities (Notes 21 and 22)	Other assets (Note 32)	Off-balance sheet liabilities (Note 36)	Total
Balance as at January 1, 2014	**325,498**	**20,284,142**	**45,186**	**1,883,399**	**486,989**	**23,025,214**
Charge for the year	2,940	10,388,981	10,842	446,886	579,588	11,429,237
Decrease in impairment allowance	(2,785)	(7,376,665)	(13,934)	(748,607)	(467,046)	(8,609,037)
Transfer from off-balance sheet items	-	394,977	-	-	-	394,977
Foreign exchange effects	43,210	531,470	100	21,921	1,298	597,999
Write-off	-	(268,885)	-	(1,530)	-	(270,415)
Other movements	-	614,972	78,229	21,147	-	714,348
Balance as at December 31, 2014	**368,863**	**24,568,992**	**120,423**	**1,623,216**	**600,829**	**27,282,323**

15. STAFF COSTS

Staff costs include:

	Year Ended December 31, 2014	2013
Net salaries	2,776,267	2,837,995
Net benefits	472,600	452,878
Payroll taxes	419,099	457,953
Payroll contributions	930,162	903,043
Considerations paid to seasonal and temporary staff	46,337	54,571
Provisions for retirement benefits - net	5,775	11,538
Other staff costs	95,029	66,917
Total	4,745,269	4,784,895

16. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2014	2013
Amortization charge – intangible assets (Note 26.2)	314,995	288,147
Depreciation charge – property and equipment (Note 27.2)	578,728	555,255
Depreciation charge – investment property (Note 28.1)	39,128	35,571
Total	932,851	878,973

17. OTHER EXPENSES

Other expenses include:

	Year Ended December 31, 2014	2013
Cost of materials	434,529	496,258
Cost of production services	2,431,841	2,294,701
Non-material costs (without taxes and contributions)	2,474,251	1,840,976
Taxes payable	152,452	154,577
Contributions payable	748,355	849,118
Other costs	34,044	39,356
Other expenses	211,436	410,389
Losses on the valuation of property and equipment, investment property and intangible assets	697	197,328
Provisions for litigations	4,834	14,814
Total	6,492,439	6,297,517

18. INCOME TAXES

Pursuant to the regulations effective in the Republic of Serbia, the Parent Bank cannot perform tax consolidation. The ultimate tax liabilities for income taxes of the Group members are determined by applying the respective prescribed tax rates to the tax bases stipulated by the local tax regulations and are disclosed separately, in each Group member's annual statutory financial statements.

The effective income tax rates for the year 2014 were as follows:

Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The taxes payable determined are not subject to consolidation; these amounts are disclosed separately instead.

18. INCOME TAXES (Continued)

18.1. *Parent Bank*

18.1.1. Components of the income tax as of December 31 were as follows:

	Year Ended December 31, 2014	2013
Deferred tax benefits	47,547	87,950
Deferred tax expenses	(19,559)	-
Total	27,988	87,950

In 2014 and 2013 the Parent Bank did not report current income tax expenses pursuant to the effective tax regulations.

18.1.2. Reconciliation of the effective tax rate is presented in the table below:

	2014	2014	2013	2013
Profit for the year before taxes		**4,757,589**		**4,588,375**
Tax calculated using the local income tax rate	15%	713,638	15.00%	688,256
Expenses not recognized for tax purposes	1,18%	56,261	1.63%	74,673
Tax effects of the net capital losses /gains	-0,01%	(412)	-0.01%	(73)
Tax effects of income reconciliation	-0,30%	(14,441)	-1.01%	(46,245)
Tax credit received and used in the current year	0%	-	-1.06%	(48,356)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-17,72%	(843,246)	-14.57%	(668,255)
Tax effect adjustments (used and new ones)	-0,59%	(27,988)	-1.92%	(87,950)
Tax effects stated within the income statement	-	**(27,988)**	-	**(87,950)**

18.3 Movements in deferred taxes as at December 31 are presented as follows:

	Year Ended December 31, 2014	2013
Balance as at January 1	(10,156)	4,896
Occurrence and reversal of temporary differences	(140,251)	(15,052)
Balance as at December 31	(150,407)	(10,156)

18. INCOME TAXES (Continued)

18.2. *Komercijalna banka a.d., Budva*

18.2.1. Components of the income tax as of December 31 were as follows:

	Year Ended December 31, 2014	2013
Current income tax expense	(14,726)	(17,765)
Deferred tax benefits	-	605
Deferred tax expenses	(2,222)	(3,063)
	(16,948)	(20,223)

18.2.2. Reconciliation of the effective tax rate is presented in the table below:

	2014	2014	2013	2013
Profit before taxes		**152,881**		**175,536**
Income tax at the statutory tax rate of 9%	9.00%	13,759	9.00%	15,798
Taxable income – related parties	-0.12%	(184)	-0.56	-
Tax effects of the expenses not recognized for tax purposes	2.47%	3,775	3.22%	5,654
Tax credits available for carryofrward	-0.26%	(402)	-0.14%	(249)
Effective income tax	11.09%	16,948	11.52%	21,203
Tax effects stated within the income statement		**16,948**		**20,223**
Adjusted effective tax rate				**10.84%**

Subsequent to the reporting date for the year 2013 the Bank the Bank made adjustment to the taxable difference arising from provisions for employee retirement benefits stated in the tax balance and stated current income tax expenses decreased by RSD 980 thousand, which reduced the effective tax rate to 10.84%. The difference arising from the reduction of the current income tax expense was transferred to the retained earnings opening balance for the year 2014.

18.3. *Komercijalna banka a.d., Banja Luka*

18.3.1. Components of the income tax as of December 31 were as follows:

	Year Ended December 31, 2014	2013
Current income tax expense	(8,280)	(6,864)
	(8,280)	(6,864)

18.3.2. Reconciliation of the effective tax rate is presented in the table below:

	2014	2014	2013	2013
Profit before taxes		**9,858**		**21,886**
Income tax at the statutory tax rate of 10%	10.00%	986	10.00%	2,189
Tax loss carried forward from prior periods	-27.88%	(2,748)	-	-
Tax effects of the expenses not recognized for tax purposes	163.24%	16,092	36.81%	8,057
Tax exempt income	-61.37%	(6,050)	-15.45%	(3,382)
Effective income tax	83.99%	8,280	31.36%	6,864
Tax effects stated within the income statement		**8,280**		**6,864**

18. INCOME TAXES (Continued)

18.3. ***Komercijalna banka a.d., Banja Luka (Continued))***

18.3.3. Movements in deferred taxes as at December 31 are presented as follows:

	Year Ended December 31, 2014	2013
Balance as at January 1	-	-
Occurrence and reversal of temporary differences	586	-
Balance as at December 31	586	-

18.4. ***Investment Fund Management Company KomBank INVEST a.d., Beograd***

18.4.1. Components of the income tax as of December 31 were as follows:

	Year Ended December 31, 2014	2013
Current income tax expense	(142)	(50)
Deferred tax benefits	-	484
Deferred tax expenses	(42)	-
	(184)	434

18.4.2. Reconciliation of the effective tax rate is presented in the table below:

	Year Ended December 31, 2014	2013
Profit before taxes	1,419	1,423
Income tax at the statutory tax rate of 15%	213	213
Tax effects of the expenses not recognized for tax purposes	29	6
Tax effects of the net capital gains	142	(72)
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization	38	1
Tax effects of losses within the tax statement	(2,068)	(2,178)
Tax effect adjustments (used and new ones)	1,646	2,030
Other	184	(434)
Tax effects stated within the income statement	**184**	**(434)**
Effective tax rate	**12.97%**	**0.00%**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

	December 31, 2014	December 31, 2013
In RSD		
Cash on hand	2,470,753	2,526,407
Gyro account	25,191,123	22,926,420
Interest on obligatory RSD reserves	-	20,550
Other RSD cash funds	100	100
	27,661,976	25,473,477
In foreign currencies		
Cash on hand	3,140,906	2,429,063
Foreign currency obligatory reserves	39,639,224	43,989,452
Other cash funds	2,191,422	3,244,504
	44,971,552	49,663,019
Total	72,633,528	75,136,496

Adjustments to cash and cash equivalents for the purpose of preparing the statement of cash flows

Foreign currency accounts held with foreign banks (Note 23.1)	14,901,966	11,596,840
Foreign currency obligatory reserves	(39,639,224)	(43,989,747)
Interest on obligatory RSD reserves	-	(20,550)
	(24,737,258)	(32,413,457)
Cash and cash equivalents reported in the statement of cash flows	47,896,270	42,723,039

In the statement of cash flows the Group reports on the cash funds held on the gyro account held with the central banks, cash on accounts held with foreign banks, cash funds held on the account with the Central Securities Registry, Depository and Clearing House and cash on hand.

Parent Bank

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the National Bank of Serbia. In accordance with the said Decision, the obligatory dinar reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0% to 5%, depending on the maturity of liabilities and their sources, whereby dinar reserve is comprised of: obligatory RSD reserves, 36% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 28% of RSD equivalent of obligatory reserves in EUR to deposits over 730 days (Official gazette of RS, no. 135/2014). The National Bank of Serbia pays interest on these dinar reserves in the amount of 2.5% per annum (2013: 2.5% p.a.).

The Parent Bank calculates the obligatory reserves in foreign currency on the 17th day of the month based on the average balance of foreign currency deposits registered in the preceding calendar month.

The required reserve in foreign currency is allocated onto a special account held with the National Bank of Serbia and these funds may be drawn as necessary. The Parent Bank is under obligation to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency obligatory reserve, where, for the purposes of realizing average daily balance of allocated required reserve, the daily balance on the account of required reserve may be below or above the calculated foreign currency obligatory reserve.

Foreign currency obligatory reserve does not accrue interest. During 2014, in accordance with the Decision on Required Reserves of Banks with the National Bank of Serbia, the Parent Bank allocated a certain portion of its foreign currency reserve in dinars to its gyro account.

Other foreign currency cash funds of RSD 1,660,523 thousand (2013: RSD 2,392,726 thousand) relate to the Parent Bank’s clearing account held with the s Central Securities Registry, Depository and Clearing House for trade in securities.

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK (Continued)

Komercijalna banka a.d., Budva

The Bank's obligatory reserve as of December 31, 2014 represents the minimum deposits set aside in accordance with the regulations of the Central Bank of Montenegro referred to in the Decision on Obligatory Bank Reserves with the Central Bank of Montenegro (Official Gazette of Montenegro no. 35/11, 22/12, 61/12, 57/13 and 52/14). Pursuant to the aforesaid Decision, the required reserve is to be calculated based on demand deposits and time deposits.

Deposit accounts held with depository institutions in Montenegro pertain to the obligatory reserve allocated at the rate of 9.5% applied to the portion of the basis for reserve calculation comprised of demand deposits and time deposits with maturities of up to a year, i.e. up to 365 days and at the rate of 8.5% applied to the portion of the basis for reserve calculation comprised of deposits with agreed maturities of over a year, i.e. over 365 days. The rate of 9.5% is also applied to deposits with maturities of less than 365 days and contracted early withdrawal clauses.

Up to 50% of the obligatory reserve represents funds available to the Bank for maintenance of daily liquidity.

The Bank may hold up to 25% of the obligatory reserve in the form of Treasury bills issued by Montenegro.

The Central Bank of Montenegro calculates interest at the annual rate of 1% to the amount of 15% of the total allocated obligatory reserve funds.

During 2014 the Bank did not make use of the obligatory reserve funds.

Komercijalna banka a.d., Banja Luka

Cash and cash equivalents include surplus liquid assets deposited with the Central Bank of Bosnia and Herzegovina in accordance with the regulations of the Central Bank of Bosnia and Herzegovina.

The obligatory reserve held with the Central Bank of Bosnia and Herzegovina represents the minimum amount of reserves calculated in accordance with the Decision on the Obligatory Reserve Held with the Central Bank of Bosnia and Herzegovina.

Since August 1, 2011, the Central Bank of Bosnia and Herzegovina has calculated and charged banks fees for the obligatory reserve funds held with the Central Bank as follows: the fee for the amount of obligatory reserves equals 70% whereas the fee for the amounts in excess of the obligatory reserves equals 90% of the rate determined based on the weighted interest rate average the Central Bank of Bosnia and Herzegovina applied on the deposits placed up to a month in the same period. Since September 1, 2014, the fee amount is either calculated in the aforedescribed manner and basis or the fee can be minimum zero.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

Financial assets held for trading comprise:

	December 31, 2014	December 31, 2013
Securities held for trading (in RSD)	51,458	21,569
Securities held for trading (in foreign currencies)	70,176	93,750
	121,634	115,319

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING (Continued)

Breakdown of financial assets held for trading is provided below:

	December 31, 2014 Total assets held for trading	December 31, 2013 Total assets held for trading
Republic of Serbia bonds	70,176	93,751
Corporate shares	3,787	3,574
Bank shares	180	490
Investment units of OIF KomBank FX Fund	4,951	-
Investment units of OIF KomBank RSD Fund	42,540	17,504
Balance as at December 31	121,634	115,319

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

	December 31, 2014	December 31, 2013
Securities available for sale (in RSD)	35,179,709	25,191,634
Securities available for sale (in foreign currencies)	63,779,573	33,797,552
	98,959,282	58,989,186
Impairment allowance of securities available for sale	(494)	(2,513)
Balance as at December 31	98,958,788	58,986,673

Financial assets available for sale

In RSD:
Republic of Serbia Treasury bills in the amount of RSD 10,590,077 thousand; Republic of Serbia bonds in the amount of RSD 22,992,331 thousand; bonds from the City of Pančevo and Municipalities Stara Pazova and Šabac budgets in the amount of RSD 443,283 thousand; bonds of the company Tigar a.d., Pirot in the amount of RSD 69,769 thousand; and bonds of the following banks: Societe generale banka a.d., Beograd in the amount of RSD 1,084,159 thousand and AIK banka a.d., Niš in the amount of RSD 90 thousand.

Out of the total amount of impairment allowance, RSD 490 thousand relates to the bonds of the company Tigar a.d., Pirot.

In foreign currencies:
Republic of Serbia Treasury bills in the amount of RSD 10,257,953 thousand; long-term Government of the Republic of Serbia bonds in the amount of RSD 50,159,809 thousand; Republic of Serbia old savings bonds in the amount of RSD 1,346,991 thousand; Republic of Srpska old savings bonds in the amount of RSD 290,305 thousand; bonds of the following foreign banks: Raiffeisen Bank International in the amount of RSD 1,397,811 thousand; and bonds of the UK Government in the amount of RSD 326,704 thousand.

21. FINANCIAL ASSETS AVAILABLE FOR SALE (Continued)

Movements on the account of impairment allowance of securities available for sale were as follows:

Impairment allowance of securities available for sale

	December 31, 2014	December 31, 2013
Individual impairment allowance		
Balance at January 1	2,513	2,546
Current year impairment allowance:		
Charge for the year	1,962	16,607
Effects of the changes in foreign exchange rates	94	442
Reversal	(4,075)	(17,082)
Total individual impairment allowance	494	2,513

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

	December 31, 2014	December 31, 2013
Securities held to maturity (in RSD)	280,123	297,611
Securities held to maturity (in foreign currencies)	229,821	171,963
Impairment allowance of securities held to maturity	(119,929)	(42,673)
	390,015	426,901

Impairment allowance of securities held to maturity

	December 31, 2014	December 31, 2013
Individual impairment allowance		
Balance at January 1	42,673	51,253
Current year impairment allowance:		
Charge for the year	8,880	128,566
Reclassified from individual to group impairment allowance	(24,411)	-
Reversal	(8,765)	(137,146)
Other	38	-
Total individual impairment allowance	18,415	42,673
Group impairment allowance		
Balance at January 1	-	-
Current year impairment allowance:		
Reclassified from individual to group impairment allowance	24,411	-
Reversal	(1,094)	-
Other	78,197	-
Total group impairment allowance	101,514	-
Total group and individual impairment allowance	119,929	42,673

23. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks include:

	December 31, 2014	December 31, 2013
RSD loans and receivables		
Per repo transactions	7,000,000	12,246,700
Loans for working capital	1,200,000	100,000
Overnight loans	2,200,000	-
Other loans and receivables	27,567	28,986
Prepayments	24,595	2,602
Impairment allowance	(105,463)	(105,463)
	10,346,699	12,272,825
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	14,901,966	11,596,840
Overnight loans	8,094,628	9,238,017
Other loans and receivables due from foreign banks	604,747	487,197
Foreign currency deposits placed with other banks	1,139,988	1,066,586
Prepayments	70	21
Other receivables	16,959	18,083
Secured foreign currency sureties	892,331	1,220,892
Impairment allowance	(263,400)	(220,035)
	25,387,289	23,407,601
	35,733,988	35,680,426

As of December 31, 2014 securities acquired through repo transactions with the National Bank of Serbia amounting to RSD 7,000,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rate of 6.2%.

Short-term RSD deposits were placed with other banks for a period of a year at interest rates ranging from 6.0 % to 10.5% per annum.

Short-term foreign currency deposits were placed with other banks for a period of a year at interest rates ranging from 0.01% to 0.8% per annum.

Interest rates applied to the loans extended by the Parent Bank to its foreign subsidiary banks ranged between 3.75% plus EURIBOR and 3.83% plus EURIBOR.

Interest rates applied to the short-term loans extended to other financial organizations ranged from 8.5% to 9% annually.

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

Group impairment allowance		
Balance at January 1	325,498	333,494
Current year impairment allowance:		
Charge for the year	2,940	1,092
Effects of the changes in foreign exchange rates	43,210	47,763
Reversal	(2,785)	(56,851)
Balance as at December 31	**368,863**	**325,498**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

	2014			2013		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	655,510	(188,902)	466,608	870,024	(145,294)	724,730
Working capital loans	56,446,391	(6,213,427)	50,232,964	53,373,320	(4,234,096)	49,139,224
Export loans	2,181,694	(887,774)	1,293,920	2,905,328	(927,611)	1,977,717
Investment loans	38,837,397	(2,274,595)	36,562,802	40,156,744	(1,522,565)	38,634,179
Purchased loans and receivables - factoring	101,171	(80,424)	20,747	159,499	(29,458)	130,041
Loans for payment of imported goods and services	5,270,391	(1,804,796)	3,465,595	4,805,144	(2,086,475)	2,718,669
Loans for discounted bills of exchange ,acceptances and payments made for guarantees called on	1,892,996	(1,084,783)	808,213	1,915,468	(1,039,858)	875,610
Other loans and receivables	57,779,622	(9,328,011)	48,451,611	52,916,270	(7,961,787)	44,954,483
Prepayments	450,950	(905)	450,045	349,382	-	349,382
Accruals	(333,090)	-	(333,090)	(414,762)	-	(414,762)
	163,283,032	(21,863,617)	141,419,415	157,036,417	(17,947,144)	139,089,273
Retail customers						
Transaction account overdrafts	4,582,281	(702,959)	3,879,322	4,740,828	(630,314)	4,110,514
Housing loans	40,850,392	(626,768)	40,223,624	36,517,645	(591,663)	35,925,982
Cash loans	16,072,903	(979,123)	15,093,780	13,601,003	(787,976)	12,813,027
Consumer loans	834,672	(60,279)	774,393	1,293,389	(60,832)	1,232,557
Other loans and receivables	2,971,944	(331,289)	2,640,655	2,851,337	(266,213)	2,585,124
Prepayments	228,794	(4,957)	223,837	191,127	-	191,127
Accruals	(426,378)	-	(426,378)	(393,150)	-	(393,150)
	65,114,608	(2,705,375)	62,409,233	58,802,179	(2,336,998)	56,465,181
Balance as at December 31	**228,397,640**	**(24,568,992)**	**203,828,648**	**215,838,596**	**(20,284,142)**	**195,554,454**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	December 31, 2014	December 31, 2013
Individual impairment allowance		
Balance as at January 1	6, 795,008	3,882,854
Current year impairment allowance:		
Charge for the year	6,062,706	6,124,908
Reclassified from group to individual impairment allowance	3,110,131	73,143
Effects of the changes in foreign exchange rates	543,728	40,010
Reversal	(5,877,617)	(3,317,429)
Transfer from off-balance sheet items	394,977	-
Prior years' interest income	(171,669)	-
Other	693,321	(8,478)
Total individual impairment allowance	**11,550,585**	**6,795,008**
Group impairment allowance		
Balance as at January 1	13,489,134	13,003,078
Current year impairment allowance:		
Charge for the year	4,326,275	3,837,709
Reclassified from group to individual impairment allowance	(3,110,131)	(73,143)
Effects of the changes in foreign exchange rates	159,411	(16,692)
Reversal	(1,499,048)	(3,240,694)
Write-off	(268,885)	(13,728)
Other	(78,349)	(7,396)
Total group impairment allowance	**13,018,407**	**13,489,134**
Balance as at December 31	**24,568,992**	**20,284,142**

24.3 Short-term RSD and foreign currency loans were approved for periods from 30 days to one year, at interest rates ranging between 0.25% and 1.8% per month.

Long-term RSD and foreign currency loans were approved for periods from 1 to the maximum of 30 years, at interest rates ranging between 2% (increased by the interest rate agreed upon for the related monetary collateral) and 22.5% per annum.

Risks and Uncertainties

The Group members' management recorded provisions for potential credit losses based on all known or anticipated credit risks as of the issue date of the financial statements. The Group's loan portfolio receivables were classified based on the most recent financial information available as well as based on the expected effects of the restructuring processes. If these effects fail to provide possibilities to settle the liabilities due to the Group members, the Group members' receivables are mostly collateralized by mortgages assigned over property held by debtors, as well as pledges on movables. In the case that the debt recovery actions undertaken by the Group members' management are unsuccessful, additional amounts of allowances for impairment and provisions for losses based on the assessed irrecoverability would be required in the forthcoming reporting periods.

25. THE PARENT BANK'S INVESTMENTS IN SUBSIDIARIES

	December 31, 2014	December 31, 2013
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Budva	2,366,273	2,366,273
	5,480,888	5,480,888
Eliminated for consolidation purposes	(5,480,888)	(5,480,888)
Consolidated balance as at December 31	-	-

Based on the equity investments in the foreign subsidiaries, the Parent Bank stated translation reserves in the amount of RSD 1,681,795 thousand (2013: RSD 1,315,086 thousand) – (Note 38.3).

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

	December 31, 2014	December 31, 2013
Intangible assets	431,007	574,685
Intangible assets in progress	20,198	14,325
	451,205	589,010

26.2 Movements on the account of intangible assets in 2014 and 2013 are presented below:

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance at January 1, 2013	1,336,323	52,831	1,389,154
Additions	12,105	220,259	232,364
Transfers	258,816	(258,816)	-
Foreign exchange effects	1,336	51	1,387
Balance at December 31, 2013	1,608,580	14,325	1,622,905
Balance at January 1, 2014	1,608,580	14,325	1,622,905
Additions	17,849	157,503	175,352
Transfers	151,845	(151,845)	-
Foreign exchange effects	11,293	215	11,508
Balance at December 31, 2014	1,789,567	20,198	1,809,765
Accumulated Amortization			
Balance at January 1, 2013	744,317	-	744,317
Charge for the year (Note 16)	288,147	-	288,147
Foreign exchange effects	1,431	-	1,431
Balance at December 31, 2013	1,033,895	-	1,033,895
Balance at January 1, 2014	1,033,895	-	1,033,895
Charge for the year (Note 16)	314,995	-	314,995
Foreign exchange effects	9,670		9,670
Balance at December 31, 2014	1,358,560	-	1,358,560
Net Book Value			
- Balance at January 1, 2013	592,006	52,831	644,837
- Balance at December 31, 2013	574,685	14,325	589,010
- Balance at December 31, 2014	**431,007**	**20,198**	**451,205**

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

	December 31, 2014	December 31, 2013
Property	5,650,399	5,744,098
Equipment	925,853	1,032,654
Investments in progress	29,244	95,849
	6,605,496	6,872,601

27.2 Movements on the account of property and equipment in 2014 and 2013 are presented below:

	Property	Equipment	Investment in Progress	Total
Cost				
Balance at January 1, 2013	6,013,455	3,288,550	54,850	9,356,855
Additions	-	4,624	1,022,353	1,026,977
Transfers (Note 28.1)	442,414	394,131	(981,390)	(144,845)
Disposal and retirement	(3,743)	(124,273)	-	(128,016)
Appraisal (revaluation) increase	972,450	-	-	972,450
Appraisal (revaluation) decrease	(191,808)	-	-	(191,808)
Impairment due to force majeure	(27,806)	-	-	(27,806)
Foreign exchange effects	2,017	4,001	36	6,054
Balance at December 31, 2013	7,206,979	3,567,033	95,849	10,869,861
Balance at January 1, 2014	7,206,979	3,567,033	95,849	10,869,861
Additions	-	9,399	1,141,245	1,150,644
Transfers (Note 28.1)	100,905	292,722	(1,208,114)	(814,487)
Disposal and retirement	(34,087)	(112,878)	-	(146,965)
Sales	(10,180)	(59,441)	-	(69,621)
Foreign exchange effects	13,841	27,767	264	41,872
Balance at December 31, 2014	7,277,458	3,724,602	29,244	11,031,304
Accumulated Depreciation				
Balance at January 1, 2013	1,092,573	2,246,413	-	3,338,986
Charge for the year (Note 16)	153,075	402,180	-	555,255
Transfers (Note 28.1)	20,755	-	-	20,755
Impairment due to force majeure	(3,649)	-	-	(3,649)
Disposal and retirement	(2,923)	(118,446)	-	(121,369)
Appraisal (revaluation) increase	226,092	-	-	226,092
Appraisal (revaluation) decrease	(23,617)	-	-	(23,617)
Other	-	669	-	669
Foreign exchange effects	575	3,563	-	4,138
Balance at December 31, 2013	1,462,881	2,534,379	-	3,997,260
Balance at January 1, 2014	1,462,881	2,534,379	-	3,997,260
Charge for the year (Note 16)	174,803	403,925	-	578,728
Transfers (Note 28.1)	(1,394)	-	-	(1,394)
Disposal and retirement	(11,072)	(106,196)	-	(117,268)
Sales	(2,203)	(56,656)	-	(58,859)
Foreign exchange effects	4,044	23,297	-	27,341
Balance at December 31, 2014	1,627,059	2,798,749	-	4,425,808
Net Book Value				
- Balance at January 1, 2013	4,920,882	1,042,137	54,850	6,017,869
- Balance at December 31, 2013	5,744,098	1,032,654	95,849	6,872,601
- Balance at December 31, 2014	5,650,399	925,853	29,244	6,605,496

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group members had no buildings assigned under mortgage as collateral for the repayment of borrowings.

As a result of incomplete land registers, as at December 31, 2014, the Parent Bank did not have title deeds as proof of ownership for 38 buildings and land lots stated at the net book value of RSD 1,726,221 thousand. The Parent Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

Based on the annual count of assets, permanently unusable items of property, plant and equipment with the net book value of RSD 5,054 thousand were retired and derecognized from the records.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2014 and 2013 are presented below:

	Total
Cost	
Balance at January 1, 2013	2,035,552
Transfers (Note 27.2)	144,845
Appraisal (revaluation) – increase	(52,000)
Foreign exchange effects	1,039
Balance at December 31, 2013	2,129,436
Balance at January 1, 2014	2,129,436
Transfers (Note 27.2)	814,487
Appraisal (revaluation) – decrease	(4,216)
Foreign exchange effects	7,100
Balance at December 31, 2014	2,946,807
Accumulated Depreciation	
Balance at January 1, 2013	182,100
Charge for the year (Note 16)	35,571
Transfers (Note 27.2)	(20,755)
Appraisal (revaluation) effects	(1,837)
Foreign exchange effects	39
Balance at December 31, 2013	195,118
Balance at January 1, 2014	195,118
Charge for the year (Note 16)	39,128
Transfers (Note 27.2)	1,394
Appraisal (revaluation) effects	(297)
Foreign exchange effects	251
Balance at December 31, 2014	235,594
Net Book Value	
- Balance at January 1, 2013	1,853,452
- Balance at December 31, 2013	1,934,318
- Balance at December 31, 2014	2,711,213

28.2.1 Parent Bank

As of December 31, 2014 the Parent Bank and Komercijalna banka a.d., Banja Luka stated investment property as totaling RSD 2,581,144 thousand and RSD 130,069 thousand, respectively, comprised of leased out buildings/premises.

Pursuant to executed long-term lease agreements in 2014 the Parent Bank transferred to investment property tangible assets acquired in lieu of debt collection (Beograd: Radnička 22 and Beogradska 39; Niš: Bulevar 12. februar bb and Gradina) totaling RSD 807,486 thousand as well as property amounting to RSD 7,001 thousand.

28. INVESTMENT PROPERTY (Continued)

28.2.2 As of December 31, 2014 the Parent Bank's net profit earned form investment property amounted to RSD 35,896 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Profit
Beograd, Makedonska 29	5,553	(21,239)	34,162	12,923
Niš, Vrtište new D building	1,816	(556)	3,939	3,383
Niš, TPC Kalča	85	(800)	3,370	2,570
Beograd, Omladinskih brigada 19	15,218	(14,172)	15,952	1,780
Šabac, Majur, Obilazni put bb	1,263	(870)	1,543	673
Lovćenac, Maršala Tita bb,	46,890	(3,772)	8,414	4,642
Negotin, Save Dragovića 20-22	658	(1,032)	701	(331)
Gradina, border crossing	60	(62)	847	785
Niš, Bulevar 12. februar bb	816	(745)	2,198	1,453
Beograd, Radnička 22	7,190	(1,570)	5,383	3,813
Beograd, Beogradska 39	460	(533)	4,738	4,205
		(45,351)	81,247	35,896

28.3.1 **Komercijalna banka a.d., Banja Luka**

Based on long-term lease contract entered into in September 2012, the Bank transferred non-current assets held for sale to investment property in the total amount of RSD 127,219 thousand, comprised of the following:

- Commercial yard with the area of 1,603 m², customs zone business premises – raw materials warehouse with the area of 873 m², commercial yard with the area of 1,739 m², production plant with the area of 1,024 m², commercial yard with the area of 1,009 m², commercial building with the area of 949 m² and category 3 pasture with the area of 2,763 m².

In 2014 the Bank performed no appraisal of its investment property.

As of December 31, 2014 the Bank's net profit earned form investment property amounted to RSD 362 thousand:

Property	Area in m2	Total Expenses	Total Rental Income	Net Profit
Bescarinska zona bb; Zona rada i industrije Brčko (Prohema d.o.o.): Three commercial buildings (2,846 m²) and land (7,114 m²)	9,960	(2,695)	3,057	362
	9,960	(2,695)	3,057	362

29. CURRENT TAX ASSETS

Parent Bank

	December 31, 2014	December 31, 2013
Current tax assets (paid monthly advance income tax payments for 2014 as prescribed by the Corporate Income Tax Law)	73,835	712,700

During 2014 the Parent Bank had a refund of the prepaid income tax from the Tax Administration in the amount of RSD 1,000,000 thousand. The income tax was prepaid as a result of the obligatory monthly advance income tax payments for the years 2013 and 2014 pursuant to the Corporate Income Tax Law and of the fact that in 2013 and 2014 the Parent Bank had no tax liabilities in this respect due to tax exemption of the interest income from debt securities of the Republic of Serbia and the National Bank of Serbia.

The prerequisite for the prepaid income tax refund was a field inspection conducted by the Tax Administration, which identified no irregularities in the Parent Bank's calculation and payment of the corporate income taxes.

Komercijalna banka a.d., Banja Luka

	December 31, 2014	December 31, 2013
Current tax assets (paid monthly advance income tax payments for 2014 as prescribed by the Corporate Income Tax Law)	5,478	12,068

Investment Fund Management Company KomBank INVEST a.d., Beograd

	December 31, 2014	December 31, 2013
Current tax assets (paid monthly advance income tax payments for 2014 as prescribed by the Corporate Income Tax Law)	259	242

The income tax was prepaid as a result of the obligatory monthly advance income tax payments for the years 2013 and 2014 pursuant to the Corporate Income Tax Law and of the fact that in 2013 and 2014 KomBank INVEST had no tax liabilities in this respect due to tax exemption of the interest income from debt securities of the Republic of Serbia and the National Bank of Serbia.

Balance as at December 31	**79,572**	**725,010**

30. DEFERRED TAX ASSETS AND LIABILITIES

30.1 Deferred tax assets and liabilities relate to:

	2014 Assets	2014 Liabilities	2014 Net	2013 Assets	2013 Liabilities	2013 Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(69,531)	(69,531)	-	(109,711)	(109,711)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	40,610	(220,512)	(179,902)	-	(2,209)	(2,209)
Long-term provisions for retirement benefits	28,571	(293)	28,278	45,463	-	45,463
Impairment of assets	60,142	-	60,142	53,291	-	53,291
Assets based on calculation of public duties	27	-	27	82	-	82
Total	129,350	(290,336)	(160,986)	98,836	(111,920)	(13,084)

30.2 Movements on temporary differences during 2014 and 2013 are presented as follows

	Balance at January 1	Recognized in Profit or Loss	Recognized in Equity	Balance at December 31
Property and equipment	(109,936)	39,771	634	(69,531)
Securities	-	-	(179,902)	(179,902)
Long-term provisions for retirement benefits	45,645	(20,843)	3,476	28,278
Impairment of assets	53,291	6,851	-	60,142
Assets based on calculating public duties	82	(55)	-	27
Total	(10,918)	25,724	(175,792)	(160,986)

	Balance at January 1	Recognized in Profit or Loss	Recognized in Equity	Balance at December 31
Property and equipment	(61,483)	54,774	(103,002)	(109,711)
Securities	-	(2,209)	-	(2,209)
Long-term provisions for retirement benefits	44,256	1,207	-	45,463
Impairment of assets	21,159	32,132	-	53,291
Assets based on calculating public duties	11	71	-	82
Total	3,943	85,975	(103,002)	(13,084)

31. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

	December 31, 2014	December 31, 2013
Non-current assets held for sale and assets from discontinued operations	137,802	75,968
	137,802	75,968

The Parent Bank's non-current assets held for sale:

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	611
Požarevac, M.Pijade 2, business premises	790.82	31,839
Požarevac, M.Pijade 2, business premises	880.86	26,345
Belgrade, Toše Jovanovića 7, business premises	24.05	2,213
Vrbas, M. Tita 49, business premises	145.56	3,992
Kruševac, Dositejeva bb, business premises	431.51	19,227
		84,227

The Parent Bank's management still intends to realize the sale of all assets that were not sold during the past year.

Non-current assets held for sale of Komercijalna banka a.d., Banja Luka:

Property	Area in m^2	Carrying Value
Šekovići, commercial facility “Novi magacin” in Tišča	1,870	14,412
Nova Topola, land	6,514	12,504
Posušje, houses, building and yard “Markića ograda”	1,289	26,659
		53,575

The Bank's management still intends to realize the sale of all assets that were not sold during the past year.

32. OTHER ASSETS

Other assets comprise:

	December 31, 2014	December 31, 2013
In RSD		
Fee receivables per other assets	127,075	120,147
Inventories	157,697	170,626
Assets acquired in lieu of debt collection	5,484,494	3,488,006
Prepaid expenses	140,847	171,180
Equity investments	1,195,907	1,020,242
Other RSD receivables	1,730,743	4,478,844
	8,836,763	9,449,045
Impairment allowance of:		
Fee receivables per other assets	(61,494)	(56,482)
Assets acquired in lieu of debt collection	(475,929)	(243,045)
Equity investments	(448,581)	(446,954)
Other RSD receivables	(546,146)	(1,093,075)
	(1,532,150)	(1,839,556)
In foreign currencies		
Other receivables from operations	1,110,391	388,691
Receivables in settlement	811,922	325,787
Other foreign currency receivables	26,484	28,249
	1,948,797	742,727
Impairment allowance of		
Other receivables from operations	(124,244)	(78,596)
Receivables in settlement	(78,951)	(74,820)
	(203,195)	(153,416)
	9,050,215	8,198,800

Implementation of the effective regulations as of December 31, 2014 and the modified contents of the line item of other assets required reclassification of equity investments from equity investments to other assets as shown in the following table:

Equity investments	**2014**	**2013**
Equity investments in banks and other financial organizations	143,383	135,667
Equity investments in companies and other legal entities	460,913	457,178
Equity investments in non-resident entities abroad	591,611	427,397
	1,195,907	1,020,242
Impairment allowance of:		
Equity investments in banks and other financial organizations	(26,683)	(25,266)
Equity investments in companies and other legal entities	(421,898)	(421,688)
	(448,581)	(446,954)

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,386 thousand, AIK banka a.d., Niš in the amount of RSD 61,061 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,053 thousand, Union banka d.d., Sarajevo in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. oktobar a.d., Kruševac in the amount of RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 50,737 thousand and Politika a.d., Beograd in the amount of RSD 39,187 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 487,895 thousand and MASTER Card in the amount of RSD 103,353 thousand as well as Montenegro Stock Exchange Podgorica in the amount of RSD 363 thousand.

32. OTHER ASSETS (Continued)

Impairment allowance of equity investments totaling RSD 448,581 thousand refers to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. oktobar a.d., Kruševac - RSD 324,874 thousand, RTV Politika d.o.o., Beograd - RSD 37,634 thousand, Politika a.d., Beograd - RSD 28,484 thousand, Kompanija Dunav osiguranje a.d., Beograd - RSD 28,828 thousand and AIK banka a.d., Niš - RSD 19,287 thousand.

Other RSD receivables mostly refer to other receivables from operations totaling RSD 253,028 thousand, advances paid for working capital assets of RSD 81,740 thousand, rental receivables of RSD 369,862 thousand and interest receivables per other assets of RSD 268,543 thousand.

Other receivables from operations in foreign currencies for the most part pertain to the Parent Bank's receivables for purchase and sale of foreign currencies due from banks in the amount of RSD 725,750 thousand.

Movements on the allowance for impairment account related to other assets and prepayments during the year are presented in the table below:

	December 31, 2014	December 31, 2013
Balance as at January 1	1,883,399	1,341,481
Current year impairment allowance:		
Charge for the year	446,886	329,813
Effects of the changes in foreign exchange rates	21,921	2,239
Reversal	(748,607)	(325,293)
Write-off	(1,530)	(10,056)
Other	21,147	545,215
Balance as at December 31	1,623,216	1,883,399

Assets acquired in lieu of debt collection totaling RSD 5,484,494 thousand gross, less recorded impairment allowance of RSD 475,929 thousand, with the net book value of RSD 5,008,565 thousand relate to the Group members as follows:

32. OTHER ASSETS (Continued)

Parent Bank

Properties acquired in lieu of debt collection after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Property	Area in m^2	Value	Acquisition Date
	434.58	4,959	17/04/2013
CM Vukovac, CM Milatovac, arable land	132,450.00	586	16/05/2014
Bor, Nikole Pašića 21, buildings, warehouse, plant	3,823.00	90,913	08/05/2014
Aleksinac, arable land (fields, vineyards, pastures)	36,787.00	243	09/07/2014
Subotica, Magnetna 17, production plant, warehouse	2,492.00	50,865	18/07/2014
Reževići, Montenegro, karst, category 5 forest	1,363.20	24,483	22/07/2014
Reževići, Montenegro, category 5 forest	5,638.54	86,600	22/07/2014
Bajina Bašta, Vojvode Mišića 72/1, family house	110.25	2,800	01/08/2014
Mokra Gora, house, meadows pastures, fields	58,400.00	11,901	31/01/2014
Kopaonik, house and yard	337.00	10,955	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29.00	4,421	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44.00	6,683	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35.00	5,347	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34.00	5,141	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39.00	5,963	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 1	266.00	122,923	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 2	57.00	26,393	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 11	44.00	6,858	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226.00	60,474	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253.00	81,983	31/01/2014
Novi Sad, Vardarska 1/b, business premises no. 1	291.00	48,629	31/01/2014
Novi Sad, Tihomira Ostojića 4, business premises no. 7	134.00	17,664	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81.00	10,702	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79.00	10,495	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408.00	71,488	31/01/2014
Zrenjanin, Bagljaš, Novosadski put no. 4, building, construction land, transformer substation, gas station, building in construction	9,144.00	38,310	14/08/2014
Beograd, Jurija Gagarina 153a, business premises	30.00	6,538	27/08/2014
Amerić, Mladenovac, category 3 and category 4 fields	7,768.00	260	03/10/2014
CO Kajtasovo, Bela Crkva, forest	4,187.00	85	03/10/2014
Mladenovac, Šepšin, fields, orchards	25,136.00	551	03/10/2014
Total I		815,213	

32. OTHER ASSETS (Continued)

Parent Bank (Continued)

Properties acquired in lieu of debt collection in prior periods (12 months before) – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Property	Area in m^2	Value	Acquisition Date
Mur, Novi Pazar, house and category 3 orchard	1,190.00	5,535	06/04/2012
I.C.P Kruševac, commercial building	12,836.00	49,982	08/06/2012
Soko Banja, arable land (orchard, fields)	-	3,230	31/07/2013
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,010	24/07/2012
Majur, Tabanovačka, category 4 arable field	1,445 ha	1,671	10/08/2012
Mladenovac, category 3 arable field	16,633	274	22/11/2012
Prokuplje, Maloplanska 7, two buildings and land	490,00	314	11/06/2012
Obrenovac, Mislođin, arable field	10,017	1,078	11/07/2012
Gnjilica, category 7 arable field	2,638.00	115	11/06/2008
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	113,882	12/02/2009
Residential building, Čačak, at Ratka Mitrovića 6	195	3,706	12/05/2009
Novi Pazar, Kej skopskih žrtava 44, store	82.95	3,435	27/09/2006
Novi Pazar, yard and category 6 meadow	1 ha 24 a	181	26/08/2010
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,512	23/12/2010
Tutin, Buče category 4 forest	8,292	338	26/11/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.3	173	41,779	24/12/2010
NBGD, Milentija Popovića 5b, apartment I S2 no.5	171	41,283	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 no.9	175	42,273	24/12/2010
Tutin, Ostrovica, forest, field and pasture	110,782	601	30/07/2012
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	328	27/09/2012
Mur, Novi Pazar, forest, field and orchard	34.96 a	4,379	12/07/2011
Budva, category 4 forest	974	4,113	27/05/2011
Prijevor, category 4 forest	1,995	4,838	27/05/2011
Residential building Galathea	925	319,214	21/11/2011
Vranje, field, category 2 vineyard	2,339	1,858	29/11/2013
Prijepolje, Karoševina, saw mill	450	1,126	08/11/2013
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	15/01/2013
Leskovac, Kralja Petra I, commercial building	335	5,863	04/02/2013
Niš, Ivana Milutinovića 30, business premises	438.39	5,614	23/04/2013
Niš, Triglavska 3/1, apartment	79.80	3,609	04/06/2013
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	27,571	09/07/2013
Mladenovac, field, category 3 forest	1,142	506	18/07/2013
Niš, Bulevar 12. februara, warehouse, ancillary facility	2,062	45,931	31/07/2013
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	25,071	22/11/2013
Total II		770,144	

Properties acquired in lieu of debt collection after December 30, 2013 – amounts excluded from the calculation of reserves from profit in accordance with the relevant NBS decision

Property	Area in m^2	Value	Acquisition Date
Beograd, Resavska 29, building	1,944	404,637	03/06/2014
Beograd, Resavska 31, building	3,411	697,131	03/06/2014
Zemun, Cara Dušana 130, factory complex	6,876	243,235	16/06/2014
Valjevo, Rađevo selo, warehouse	394	483	11/06/2014
Total III		1,345,486	

32. OTHER ASSETS (Continued)

Parent Bank (Continued)

Equipment acquired in lieu of debt collection in prior periods (12 months before)

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	45,243	11/06/2012
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	34,701	31/07/2012
Paraćin, coffee roasting line	11,018	31/12/2012
Vranić, equipment, production line	10,843	09/07/2013
Total IV	101,805	

Equipment acquired Equipment acquired in lieu of debt collection after December 30, 2013 – amounts excluded from the calculation of reserves from profit in accordance with the relevant NBS decision

Description	Value	Acquisition Date
Movables (installation materials, metal shelving)	1,939	13/05/2014
Equipment, inventories of waste materials	2,660	18/07/2014
Total V	4,599	

Equipment acquired Equipment acquired in lieu of debt collection after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Description	Value	Acquisition Date
Peugeot 406, HDI	60	-
Thermal accumulation heater	3	-
Samsung TV set	2	-.
Total VI	65	
TOTAL Parent Bank (net book value) I + II+ III+ IV+V+VI	**3,037,312**	

During 2014 the Parent Bank sold seven properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 74,482 thousand (two apartments in Novi Beograd, two apartments in Niš, a commercial building in Niš, a house in Sombor and a commercial and residential building in Grabovica). The total sales price of the aforesaid properties amounted to RSD 83,072 thousand. The Parent Bank does not hold ownership titles for 22 properties with the total present value of RSD 942,140 thousand. The Parent Bank's management is undertaking all the necessary actions to sell such properties.

32. OTHER ASSETS (Continued)

Komercijalna banka a.d., Budva

Properties acquired in lieu of debt collection over the past 12 months:

Property	Area in m^2	Value in RSD '000	Acquisition Date
Land lot 3074 Tološi, land	1,684	16,145	16/01/2014
Land lot 696 Reževići, residential premises and land	4,734	325,500	25/01/2014
Land lot 825 Buljarice Budva, land	8,953	182,547	25/01/2014
Land lot 71 Risan Kotor, land	425	8,671	14/04/2014
Land lot 266 Šišići Kotor, residential premises and land	396	4,283	12/08/2014
Land lot 2558 Pečurice, Bar, land and forest	12,501	10,358	31/12/2014
Land lot 46 Rogami, Podgorica, residential premises and land	412	7,185	31/12/2014
Land lot 1619 Sutomore, land	3,569	93,138	31/12/2014
Total I		647,827	

Properties acquired in lieu of debt collection in prior periods:

Property	Area in m^2	Value in RSD '000	Acquisition Date
Danilovgrad – buildings of 190 m² and land of 13,205 m²	13,395	3,653	9 /10 /2007
Podgorica – commercial buikdings of 995 m² and land of 170 m²	1,165	93,380	31 /12 /2008
Sutomore – residential	1,158	75,905	31 /01 /2009
Kotor Pobrđe – land	31,534	61,029	28 /02 /2009
Budva – forest	709	25,728	31 /03 /2009
Reževići – residential facilities	139	33,626	30 /06 /2009
Podgorica – land	375	12,701	31 /08 /2009
Podgorica – buildings of 1,291 m² and land of 11,683 m²	12,974	11,491	31 /10 /2009
Danilovgrad – residential buildings of 709m², yard of 500m² and land 16,544m²	17,753	31,508	30 /11 /2009
Sutomore – land	432	34,167	03 /12 /2009
Tološi – residential buildings of 500m² and yard of 195m²	695	56,124	07 /12 /2009
Petrovac – residential buildings of 252m², business premises 40m² and land of 811m²	1,103	58,786	17 /12 /2009
Reževići – land	547	17,660	17 /12 /2009
Dajbabe – business premises of 2,370m² and land of 8,879m²	11,249	102,074	28 /12 /2009
Podgorica – business premises 97m²+ 497m²	594	90,719	27 /01 /2010
Cetinje – garage of 30 m² and land of 374 m²	404	1,531	25 /05 /2010
Tološi - residential building of 394m² and land of 61m²	455	31,921	31 /07 /2010
Kotor – Vranovići – forest and meadows	3,131	2,852	01 /08 /2010
Budva – residential building	50	12,217	17 /08 /2010
Danilovgrad – Spuž – residential premises of 228 m² and land of 1,364 m²	1,592	6,222	31 /10 /2011
Kotor – land	3,632	5,648	30 /11 /2011

32. OTHER ASSETS (Continued)

Komercijalna banka a.d., Budva (Continued)

Properties acquired in lieu of debt collection in prior periods (Continued):

Property	Area in m^2	Value in RSD '000	Acquisition Date
Podgorica – hotel building of 661m² and land of 264m²	925	75,599	31 /12 /2011
Rijeka Crnojevića – business premises and 3,309m² and land 43,436m²	46,745	181,648	30 /06 /2012
Unclassified roads of 284m² and category 4 meadow of 693m²	977	1,848	28 /02 /2013
Land of 4,426m² and commercial building of 2,868m²	7,294	278,702	17 /01 /2013
Category 2 orchard of 692m², yard of 500m², 3 ancilalry buildings of 91, 24 and 15m², 2 apartments of 75m² each, 2 ancillary buildings 20m² and 15m²	1,507	4,044	28 /02 /2013
Residential premises of 65m²	65	5,786	30 /08 /2013
Land lot 3606/3 – yard of 421m², residential building of 81m², ancillary building of 27m² and two apartments of 65m² each	659	1,559	01 /08 /2013
Development land lot in Herceg Novi	1,684	5,298	04 /11 /2013
Total II		1,323,426	
TOTAL Komercijalna banka a.d., Budva (net book value) I + II		**1,971,253**	

The Bank is in possession of title deeds for 25 properties acquired in lieu of debt collection, but has not been vested in property yet. The total net book value of assets acquired in lieu of debt collection where the Bank was not yet vested into property as of December 31, 2014 amounted to RSD 1,599,069 thousand (EUR 13,220 thousand). The Bank's management is undertaking all the necessary measures to realize the sale of the assets acquired.

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

Deposits and other liabilities due to banks, other financial institutions and the central bank comprise:

	December 31, 2014	December 31, 2013
Demand deposits	6,685,766	1,845,330
Term deposits	2,035,754	6,827,421
Borrowings	17,620,512	14,542,587
Expenses deferred at the effective interest rate (deductible item)	(145,905)	(122,469)
Other	51,637	134,504
Balance as at December 31	**26,247,764**	**23,227,373**

Short-term RSD deposits placed by banks were deposited for periods of up to one year at interest rates ranging from 5.7 % to 9.1% per annum. In 2014 the Parent Bank had no liabilities per long-term deposits placed by banks.

The largest portion of demand deposits relates to the transaction RSD deposit of Kompanija Dunav osiguranje a.d., Beograd amounting to RSD 4,822,226 thousand.

Newly enacted regulations define what extraterritorial organization and non-resident are regarded as banks and what as customers for the purposes of balance sheet preparation. This resulted in splitting and presenting the total liabilities per foreign loan facilities obtained in separate line items of the balance sheet, depending on the creditor.

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

Breakdown of the Parent Bank's long-term borrowings included within the line item of deposits and other liabilities due to banks is presented below:

	December 31, 2014	December 31, 2013
EFSE	5,926,957	5,011,497
GGF	1,987,345	2,636,768
FMO	2,419,166	2,292,842
IFC	1,814,374	-
EBRD	4,319,939	3,439,263
Balance as at December 31	16,467,781	13,380,370

The loan facility agreements executed by the Parent Bank and the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

Pursuant to the loan agreements executed with the creditors listed in the table above, the Parent Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained. As of December 31, 2014, the Parent Bank was in full compliance with all the contractually defined financial ratios toward the aforelisted foreign creditors.

Breakdown of long-term borrowings of Komercijalna banka a.d., Banja Luka included within the line item of deposits and other liabilities due to banks is presented below:

	December 31, 2014	December 31, 2013
EFSE	290,300	343,926
Investment and Development Bank	862,431	818,291
Balance as at December 31	1,152,731	1,162,217

The borrowings presented in the table above mature for repayment from 2016 to 2035.

Pursuant to the loan agreement executed with the EFSE Komercijalna banka a.d., Banja Luka is obligated to comply with certain financial covenants. As of December 31, 2014, the Bank was in full compliance with all the contractually defined financial ratios.

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

	December 31, 2014	December 31, 2013
Corporate customers		
Demand deposits	56,393,521	45,317,104
Revocable deposits	34,015	52,754
Other deposits	25,385,229	22,286,121
Borrowings	13,401,184	14,074,128
Earmarked deposits	8,236,245	4,156,617
Deposits for loans approved	740,766	556,452
Interest payable, accrued interest liabilities and other financial liabilities	756,540	1,836,512
Retail customers		
Demand deposits	18,419,490	14,446,354
Revocable deposits	5,703	19,914
Savings deposits	189,779,273	174,092,108
Earmarked deposits	2,203,038	1,258,393
Deposits for loans approved	1,644,021	1,576,053
Interest payable, accrued interest liabilities and other financial liabilities	3,600,761	3,061,238
Other deposits	494,422	341,529
Balance as at December 31	321,094,208	283,075,277

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2014, these deposits became interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate applied thereto ranged from 0.25% and 1.5% per annum.

Foreign currency demand deposits of non-resident customers are non-interest bearing, except for specific business arrangements.

In 2014 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between the key policy rate less 4 percentage points for deposits placed up to 7 days to key policy rate less 2.05 percentage points for deposits placed up to a year per annum.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.1% and 3 % annually.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased by 1.7 percentage points, whereas those denominated in foreign currency accrued interest at the annual rates from 1.09% to 5%.

In 2014 short-term deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 0.5% to 1.3% annually.

Long-term deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 1.6% to 1.9% annually.

Retail Customer Deposits

Demand RSD savings deposits of retail customers were placed at the annual interest rate of 0.15%, while foreign currency demand deposits accrued interest at the respective rates from 0.1% to 0.25% for and from 0.05% to 0.1% for EUR and other currencies per annum.

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

Retail Customer Deposits (Continued)

In 2014 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 4.25% to 8.5 % annually and those in foreign currencies at rates from 0.05% to 4.3% annually.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 7.75% to 10.25% annually and those in foreign currencies at rates from 0.3% to 5.25 % annually.

Newly enacted regulations define what extraterritorial organization and non-resident are regarded as banks and what as customers for the purposes of balance sheet preparation. This resulted in splitting and presenting the total liabilities per foreign loan facilities obtained in separate line items of the balance sheet, depending on the creditor.

Breakdown of long-term borrowings included within the line item of deposits and other liabilities due to customers

Breakdown of the Parent Bank's long-term borrowings included within the line item of deposits and other liabilities due to customers is presented below:

	December 31, 2014	December 31, 2013
LEDIB 1 and 2 (Kingdom of Denmark)	19,602	18,406
Republic of Italy Government	798,788	1,062,640
European Investment Bank (EIB)	5,629,831	5,781,447
European Agency for Reconstruction (EAR)	197,913	158,421
KfW	6,047,916	6,305,316
Balance as at December 31	12,694,050	13,326,230

The above presented long-term borrowings mature in the period from 2014 to 2022.

The loan facility agreements executed by the Parent Bank and the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

Pursuant to the loan agreements executed Kreditanstalt fur Wiederaufbau (German Development Bank, abbreviated: KfW), the Parent Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained. As of December 31, 2014, the Parent Bank was in full compliance with all the contractually defined financial ratios toward the aforesaid foreign creditor.

Breakdown of long-term borrowings of Komercijalna banka a.d., Budva included within the line item of deposits and other liabilities due to customers is presented below:

	December 31, 2014	December 31, 2013
European Investment Bank (EIB)	589,672	601,871
Montenegro Government - Project 1000+	55,177	52,296
Montenegro Development Fund	62,285	93,731
Balance as at December 31	707,134	747,898

The above presented long-term borrowings mature in the period from 2014 to 2031.

Pursuant to the loan agreements with the above listed creditors Komercijalna banka a.d., Budva was not obligated to comply with any financial covenants.

35. SUBORDINATED LIABILITIES

	December 31, 2014	December 31, 2013
Foreign currency subordinated liabilities	6,047,915	5,732,105
Other liabilities (accrued interest liabilities)	14,077	13,054
Expenses deferred at the effective interest rate (deductible item)	(25,312)	(33,750)
Balance as at December 31	6,036,680	5,711,409

In accordance with the regulations of the National bank of Serbia related to the capital adequacy requirements and implementation of the Basel II Standard, in 2011 the Parent Bank enhanced its core capital by obtaining a subordinated loan from the International Finance Corporation (IFC). The subordinated loan received totaled RSD 6,047,915 thousand, i.e., EUR 50,000 thousand as of December 31, 2014.

36. PROVISIONS

Provisions relate to:

	December 31, 2014	December 31, 2013
Provisions for off-balance sheet items (Note 14)	600,829	486,989
Provisions for litigations (Note 39.3)	774,055	13,622
Provisions for employee benefits in accordance with IAS 19	357,185	334,700
Balance as at December 31	1,732,069	835,311

Movements on the accounts of provisions are provided below:

	2014				2013			
	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 39.3)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 39.3)	Provisions for Employee Benefits (IAS 19)	Total
Balance, January 1	486,989	13,622	334,700	835,311	521,239	1,560,358	325,037	2,406,634
Charge for the year	579,588	760,490	37,556	1,377,634	659,140	14,814	17,395	691,349
Provisions against actuarial gains within equity	-	-	20,451	20,451	-	-	-	-
Release of provisions	-	(349)	(6,752)	(7,101)	(49,399)	(1,178,804)	(2,337)	(1,230,540)
Reversal of provisions	(467,046)	-	(31,781)	(498,827)	(644,042)	(382,769)	(5,857)	(1,032,668)
Other	1,298	292	3,011	4,601	51	23	462	536
Balance at December 31	600,829	774,055	357,185	1,732,069	486,989	13,622	334,700	835,311

a) *Comment on Movements on the Parent Bank's Provisions for Litigations:*

Based on the Belgrade Supreme Appellate Court ruling, in 2014 the Parent Bank had a refund of the amount of RSD 755,656 thousand, which was transferred from the Parent Bank's account for enforced collection in the previous year, in respect of the lawsuit involving the Parent Bank and Ineks Intereksport a.d., Beograd (in bankruptcy). This ruling annulled the previous adjudication of the Commercial Court of Belgrade from 2013 and the case was referred to the first instance court for redeliberation. The Court ruled in favor of the Parent Bank, i.e. the amount claimed shall belong to the Bank until the revised litigation is finalized. The Parent Bank provided for this amount in full.

36. PROVISIONS (Continued)

a) *Comment on Movements on the Parent Bank's Provisions for Litigations (Continued):*

The Court accepted the Parent Bank's request that the case be split into two separate cases given that the Republic of Serbia filed a lawsuit against the Parent Bank on the same grounds. The total RSD amount of provisions of RSD 755,656 thousand relates to the following lawsuits:

- Lawsuit filed by the Republic of Serbia with the claim amount of USD 4,773 thousand and
- Lawsuit filed by Intereksport a.d., Beograd (in bankruptcy) with the claim amount of USD 1,948 thousand.

b) *The main actuarial assumptions used in calculation of retirement benefits were as follows:*

	December 31, 2014	December 31, 2013
Parent Bank		
Discount rate	8.75%	11.25%
Salary growth rate within the Bank	2.5%	4%
Employee turnover	5%	5%

The discount rate equaled the previous years' key policy rate of NBS as of December 31.

Komercijalna banka a.d., Budva		
Discount rate	8.0%	8.0%
Salary growth rate within the Bank	3%	4%
Employee turnover	5%	5%

The discount rate equaled the average interest rate applied to corporate long-term loans in Montenegro.

Komercijalna banka a.d., Banja Luka		
Discount rate	8.5%	8.5%
Salary growth rate within the Bank	4%	4%
Employee turnover	5%	5%

The discount rate equaled the average interest rate applied to corporate long-term loans in Bosnia and Herzegovina.

KomBank INVEST a.d., Beograd		
Discount rate	8.75%	11.25%
Salary growth rate within the Company	4%	4%
Employee turnover	5%	5%

The discount rate equaled the previous years' key policy rate of NBS as of December 31.

37. OTHER LIABILITIES

Other liabilities include:

	December 31, 2014	December 31, 2013
Accounts payable	227,345	289,496
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	272,968	54,353
Advances received	75,977	72,076
Deferred interest, fee and commission income	230,560	234,097
Accrued liabilities and other accruals	247,790	669,729
Liabilities in settlement	1,756,825	2,755,466
Dividend payment liabilities	277,367	150,124
Taxes and contributions payable	64,864	24,426
Other liabilities	161,246	124,294
Balance as at December 31	3,314,942	4,374,061

37. OTHER LIABILITIES (Continued)

Liabilities in settlement totaling RSD 1,756,825 thousand mostly, in the amount of RSD 727,100 thousand and RSD 699,100 thousand, refer to the liabilities for sale and purchase of foreign currencies in the foreign exchange market and foreign currency liabilities for spot transactions, respectively.

Dividend payment liabilities refer to the liabilities to pay out preferred and convertible share dividend in the amount of RSD 123,900 thousand and liabilities for taxes relating to employees in the amount of RSD 153,468 thousand.

38. EQUITY

38.1 Equity is comprised of:

	December 31, 2014	December 31, 2013
Issued capital	17,191,528	17,191,525
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	21,117,846	17,063,828
Revaluation reserves	4,022,299	3,074,293
Retained earnings	6,925,972	6,868,966
Balance as at December 31	72,100,729	67,041,696

Equity Structure	December 31, 2014			December 31, 2013		
	Majority Interest	Non-Controlling Interests	Total	Majority Interest	Non-Controlling Interests	Total
Share capital	17,191,466	62	17,191,528	17,191,466	59	17,191,525
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	40,034,550	62	40,034,612	40,034,550	59	40,034,609
Profit	6,925,972	-	6,925,972	6,868,966	-	6,868,966
Reserves from profit and other reserves	21,117,841	5	21,117,846	17,063,824	4	17,063,828
Revaluation reserves	2,444,131	-	2,444,131	1,820,229	-	1,820,229
Revaluation reserves (debit balance)	(237,874)	-	(237,874)	(187,011)	-	(187,011)
Translation reserves	1,816,042	-	1,816,042	1,441,075	-	1,441,075
Reserves	25,140,140	5	25,140,145	20,138,117	4	20,138,121
Equity	**72,100,662**	**67**	**72,100,729**	**67,041,633**	**63**	**67,041,696**

The Parent Bank’s issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank as well as to shares in profit distribution. As of December 31, 2014 the Parent Bank’s share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the par value of RSD 1 thousand per share.

Breakdown of the Parent Bank’s shares is provided in the table below:

	Share Count	
Share Type	**December 31, 2014**	**December 31, 2013**
Ordinary shares	16,817,956	8,709,310
Preferred convertible shares	-	8,108,646
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

38. EQUITY (Continued)

Pursuant to the Decision of the Parent Bank' Shareholder Assembly on the 27th Issue of Ordinary Shares through Public Offering without Publishing Prospectus for conversion of preferred shares into ordinary shares, on November 24, 2014, the Parent Bank converted 8,108,646 convertible preferred shares into voting shares. The aforesaid conversion affected the ordinary shares ownership percentages.

The largest portions of the Parent Bank's voting shares are held by the Republic of Serbia (41.74% of ordinary shares) and EBRD, London (24.43% of ordinary shares).

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2014 was as follows:

Shareholder	Share Count	% Interest
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
Deg Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
Invej d.o.o., Beograd	230,000	1.37
East Capital (lux)-Balkan Fund	208,106	1.24
Evropa osiguranje a.d., Beograd in bankruptcy	197,420	1.17
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit bank, a.d., Srbija	150,187	0.89
East Capital(LUX) Eastern Europe	125,408	0.75
UniCredit bank, a.d., Srbija (*custody* account)	125,205	0.74
Stankom co. d.o.o., Beograd	117,535	0.70
Erste bank a.d., Novi Sad	85,700	0.51
Others (1,084 shareholders)	1,089,549	6.48
	16,817,956	100.00

The structure of the Parent Bank's shareholders with preferred shares at December 31, 2014 was as follows:

Shareholder	Share Count	% Interest
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (629 shareholders)	355,420	95.16
	373,510	100.00

Within the line items of retained earnings and revaluation reserves adjustments were made to the actuarial gain amount based on the changes to the actuarial assumptions used in the previous period and applied in the current year amounting to RSD 141,732 thousand.

The basic earnings per share totaled RSD 253 or 25.25% of a common share par value in 2014, whereas in 2013 the basic earnings per share amounted to RSD 468 or 46.75% of a common share par value. Decrease in the earnings per share percentage in 2014 as compared to 2013 was due to the increase in the number of commons stock (ordinary) shares through conversion of preferred into ordinary shares.

	2014	2013
Parent Bank's profit for the year less preferred share dividend	4,246,824	4,071,705
Weighted average number of shares outstanding	16,817,956	8,709,310
Basic earnings per share (in RSD)	253	468

38. EQUITY (Continued)

Diluted earnings per share totaled RSD 253 or 25.25% of a common share par value in 2014, whereas in 2013 the diluted earnings per share amounted to RSD 242 or 24.21% of a common share par value.

	2014	2013
Parent Bank's profit for the year less preferred share dividend	4,246,824	4,071,705
Weighted average number of shares outstanding	16,817,956	16,817,956
Diluted earnings per share (in RSD)	253	242

38.2 Tax effects related to the other comprehensive income for the year:

	2014			2013		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities available for sale	748,153	(220,513)	527,640	198,821	-	198,821
Net decease due to actuarial losses	(20,451)	3,476	(16,975)	-	-	-
Valuation of property	(3,472)	634	(2,838)	686,680	(103,002)	583,678
Decrease due to fair value adjustments of equity investments and securities available for sale	(91,445)	40,611	(50,834)	-	-	-
Increase in cumulative foreign exchange gains on translation of foreign operations	374,967	-	374,967	52,621	-	52,621
Total	1,007,752	(175,792)	831,960	938,122	(103,002)	835,120

38.3. Cumulative foreign exchange gains on translation of foreign operations

	Cumulative foreign exchange gains on interests held in subsidiaries	Cumulative foreign exchange gains on intragroup transactions	Cumulative foreign exchange gains on translation of the income statement profit from the average to the closing date exchange rate	Total
Balance at January 1, 2013	1,261,447	70,476	56,531	1,388,454
Increase	53,639	(3,687)	2,669	52,621
Balance at December 31, 2013 (Note 25)	1,315,086	66,789	59,200	1,441,075
Increase	366,709	3,266	4,992	374,967
Balance at December 31, 2014	**1,681,795**	**70,055**	**64,192**	**1,816,042**

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

39.1 Banks within the Group issue guarantees and letters of credit to vouch to third parties for the liability settlement by their clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	December 31, 2014	December 31, 2013
Payment guarantees (Note 4.1.1.)	5,547,353	7,987,466
Performance guarantees (Note 4.1.1.)	8,138,838	5,941,473
Letters of credit	27,709	45,808
Acceptances of bills of exchange	27,185	37,737
Balance as at December 31	13,741,085	14,012,484

The above listed amounts represent the maximum amount of loss that the Banks within the Group would incur as at reporting date in the event that none of their clients were able to settle their contractual obligations.

39.2 The breakdown of commitments is provided below:

	December 31, 2014	December 31, 2013
Unused portion of approved payment and credit card loan facilities and overdrafts	9,316,139	9,281,125
Irrevocable commitments for undrawn loans	8,066,911	8,254,388
Other irrevocable commitments	527,568	217,961
Other commitments per contracted value of securities	3,243,647	681,463
Balance as at December 31	21,154,265	18,434,937

The unused approved payment and credit card loan facilities and overdrafts include the related party transaction balance per business card of KomBank INVEST with the Parent Bank in the amount of RSD 197 thousand.

39.3 Litigation

Based on the expert estimate made by the Legal Department and attorneys at law representing the Banks within the Group of the outcomes of all legal suits filed against the Group members, the management made provisions for potential litigation losses for all those legal suits in the aggregate amount of RSD 774,055 thousand (Note 36).

As of December 31, 2014 contingent liabilities based on legal suits filed against the Group members amounted to RSD 3,095,574 thousand (for 299 cases). The Group's management anticipates no materially significant losses thereof in the forthcoming period.

In addition, the Group members were involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 29,008,768 thousand (for 1,113 cases with the largest individual claim amounts). The Group members' management anticipates favorable outcome of the most lawsuits.

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (Continued)

39.4 Commitments for operating lease liabilities are provided below:

	December 31, 2014	December 31, 2013
Commitments due within one year	541,689	555,736
Commitments due in the period from 1 to 5 years	1,361,886	1,567,782
Commitments due in the period longer than 5 years	240,975	127,415
Total	2,144,550	2,250,933

39.5 Other off-balance sheet items comprise managed funds and other off-balance sheet assets.

Funds managed on behalf and for the account of third parties are mostly comprised of assets for consignment loans of the Republic of Serbia, the largest portion of which, in the amount of RSD 3,716,372 thousand, relates to the long-term housing loans extended to retail customers. Other managed funds mostly refer to loans approved for agriculture and assets received from foreign grantors for micro loans.

Within other off-balance sheet assets, the Parent Bank, among other things, records custody operations performed for the account of its clients, repo investments in Treasury bills and old FX savings bonds. As per its operating license to perform custody operations, the Parent Bank maintains the financial instruments of its clients on the security accounts, recorded off balance. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the newly enacted regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals – pledge liens.

40. RELATED PARTY DISCLOSURES

40.1 The largest portions of the Parent Bank's voting shares are held by the Republic of Serbia (41.74% of ordinary shares) and EBRD, London (24.43% of ordinary shares). The Parent Bank has 3 subsidiaries: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

Legal entities are treated as related parties if one legal entity has control over another legal entity or exercises significant influence over financial and business decisions of another entity. Related parties are also entities under joint control of the same parent entity.

In the normal course of business, a number of banking transactions are performed within the Group. These include loans, deposits, investments in equity securities and derivative instruments, payment transfers and other banking operations.

Related party transactions were performed at arm's length.

40. RELATED PARTY DISCLOSURES (Continued)

The aggregate loans and receivables due from the Group's related parties are provided below:

	On-Balance	Off-Balance	December 31, 2014 Total
Lasta d.o.o., Sombor	4,065	-	4,065
VIŠ trade d.o.o., Vršac	970	1,331	2,301
Desk d.o.o., Beograd	1	20	21
Futura Applied Ecology Faculty Belgrade	98	1,804	1,902
Mr.Saša Ristić Kruševac, Attorney at law	5	-	5
Meplast d.o.o., Kruševac	665	-	665
Menta d.o.o., Niš	1	6,000	6,001
403 private individuals	650,171	88,604	738,775
Total	**655,976**	**97,759**	**753,735**

	On-Balance	Off-Balance	December 31, 2013 Total
Lasta d.o.o., Sombor	2,291	-	2,291
Vis trade d.o.o., Vršac	7	1,700	1,707
Desk d.o.o., Beograd	21	-	21
Menta d.o.o., Niš	1	6,000	6.001
359 private individuals	646,043	85,740	731,783
Total	**648,363**	**93,440**	**741,803**

The aggregate liabilities due to the Group's related parties are provided below:

	Deposits	Borrowings	December 31, 2014 Total
Lasta d.o.o., Sombor	2,458	-	2,458
Vis trade d.o.o., Vršac	11	-	11
Desk d.o.o., Beograd	1	-	1
Futura Applied Ecology Faculty Belgrade	853	-	853
Mr.Saša Ristić Kruševac, Attorney at law	3	-	3
Meplast d.o.o., Kruševac	1,422	-	1,422
Menta d.o.o., Niš	1,233	-	1,233
EBRD	-	4,391,939	4,391,939
International Finance Corporation	-	7,862,290	7,862,290
403 private individuals	403,311	-	403,311
Total	**409,292**	**12,254,229**	**12,663,521**

	Deposits	Borrowings	December 31, 2013 Total
Lasta d.o.o., Sombor	1,204	-	1,204
Vis trade d.o.o., Vršac	15	-	15
Desk d.o.o., Beograd	157	-	157
Menta d.o.o., Niš	674	-	674
EBRD	-	3,439,263	3,439,263
International Finance Corporation	-	5,732,105	5,732,105
359 private individuals	371,199	-	371,199
Total	**373,249**	**9,171,368**	**9,544,617**

40. RELATED PARTY DISCLOSURES (Continued)

40.2 Gross and net remunerations paid to the members of the Group's management and respective Supervisory Boards, Boards of Directors and Audit Committees of the Group members were as follows:

	December 31, 2014	December 31, 2013
Gross remunerations		
Executive Boards	128,529	133,044
Net remunerations		
Executive Boards	98,218	101,894
Gross remunerations		
Boards of Directors. Supervisory Boards and Audit Committees	50,044	46,523
Net remunerations		
Boards of Directors. Supervisory Boards and Audit Committees	33,376	31,224

The Group members approved loans to the members of their Executive Boards, Boards of Directors and Audit Committees in the total amount of RSD 125,331 thousand (2013: RSD 132,600 thousand).

41. EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period Concerning the Parent Bank:

At its regular session held on January 26, 2015 the Parent Bank's Shareholder Assembly enacted Decision on the Adoption of the Business Strategy and Business Plan for the period from 2015 to 2017.

Pursuant to the NBS Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans (CHF) dated February 24, 2015, the Parent bank recognized a negative effect of RSD 167 million.

After the execution of the Pre-Packaged Reorganization Plan as of March 16, 2015, the Parent Bank made adjustments to interest receivable and recognized a negative effect of RSD 101 million for the customer Beohemija d.o.o., Beograd.

Since February 27, 2015 the account of the Parent Bank's customer Rudnap Group a.d., Beograd has been blocked. The Parent Bank therefore reassessed credit risk and made impairment allowance in respect thereof for the period from January to April 2015 in the amount of RSD 739 million.

February 26, 2015 the Parent Bank received the Decision of the Commercial Appellate Court (no. Pž-4302/13), which rejects the Parent Bank's appeal and confirms the first-instance ruling that the Parent Bank shall pay the amount of RSD 186 million with the legally prescribed penalty interest to JP Pošta Srbije, Beograd based on the bank guarantee - performance bond issued on behalf of the customer Inter-Kop d.o.o., Šabac. The Parent Bank made the payment according to the final court ruling on March 9, 2015 as follows: the amount of RSD 186 million plus the amount of RSD 73 million of legally prescribed penalty interest. On March 16, the Parent Bank filed a motion for revision as an extraordinary remedy, which will be decided by the Supreme Appellate Court.

Over the Parent Bank's lien debtor Koncern Farmakom M.B., Šabac - a.d. Mlekara Šabac, Šabac bankruptcy proceedings were instigated on March 2, 2015. The Parent Bank therefore reassessed credit risk and made additional impairment allowance in respect thereof in the amount of RSD 394 million.

41. EVENTS AFTER THE REPORTING PERIOD (Continued)

Events after the Reporting Period Concerning the Parent Bank (Continued):

The Parent Bank made provisions in respect of the legal suits against the Republic of Serbia and Inex Interexport a.d.- in bankruptcy, Beograd in the respective amounts of USD 4,772,539 and USD 1,945,799, with related interest. The final Court Decision no. 8189/13 dated January 30, 2015 in favor of the Republic of Serbia has procedural legal consequences as well as substantive legal consequences on the proceedings per lawsuit filed against the Parent Bank by Inex Interexport a.d. – in bankruptcy, Beograd (Commercial Court of Belgrade's Decision no. 3217/2014). A procedural legal consequence is continuation of the proceedings currently in recess until the finality of the Court Decision per the suit filed against the Parent Bank by the Republic of Serbia. A substantive legal consequence is the resolution of the former legal issue of active legitimacy in relation to the funds receivable by Inex Interexport a.d.- in bankruptcy, Beograd per letters of credit where the Republic of Serbia appears as the executor of obligations toward the foreign creditor, which is why it simultaneously appears as creditor to the Parent Bank. It is expected that the claim of the plaintiff Inex Interexport a.d.- in bankruptcy, Beograd against the Parent Bank will be rejected in respect of the funds subject to this litigation, the creditor of which is the Republic of Serbia per letters of credit issued and not Inex Interexport a.d.- in bankruptcy, Beograd.

The Parent Bank and Victoria Group a.d., Beograd executed the Agreement on Loan Restructuring for the loans totaling EUR 35.4 million in the aggregate, used by the entities Fertil d.o.o., Bačka Palanka and Veterinarski zavod a.d., Subotica. The Agreement on Loan Restructuring was entered into by the parent Bank, other creditors and all members of the Group. Activities of collateral institution and other requirements fulfillment are underway in order to ensure implementation of the Agreement.

Sojaprotein a.d., Bečej, a member of Victoria Group a.d., Beograd, made an early loan repayment, i.e., repaid the entire amount of the loan approved and used in the amount of EUR 5 million.

The Parent Bank and the Group Invej a.d., Beograd-Zemun, Beograd executed the Agreement on Loan Restructuring and annexes to the Loan Agreements to restructure the Parent Bank's receivables per loans used by the entities Sunce a.d., Sombor and Vital a.d., Vrbas in the aggregate amount of EUR 18.1 million. The set out requirements for loan restructuring have been fulfilled and the restructuring has been accounted for.

The Republic of Serbia Development Fund enacted Decision no. 172 dated March 18, 2015 to approve the issue of a guarantee with validity of 10 years, which Decision came into effect on the date of the Republic of Serbia Conclusion no. 05 42-3291/2015 enactment – March 26, 2015. The Conclusion recommends the Republic of Serbia Development Fund to issue/annex the guarantee at the request of the entity Valjaonica bakra Sevojno a.d., Sevojno in favor of the Parent Bank. Given the Fund's Decision, the liabilities of Valjaonica bakra Sevojno a.d., Sevojno toward the Parent Bank in the amount EUR 6.7 million are currently being rescheduled.

After the aforesaid event came to the Bank's knowledge, the Bank undertook measures to estimate the potential effect thereof on its financial performance in 2015 in accordance with the IAS/IFRS, the Bank's internal methodology and the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items.

Events after the Reporting Period Concerning Komercijalna banka a.d., Budva:

On February 10, 2015 the Central bank of Montenegro issued a report on the targeted inspection of Komercijalna banka a.d., Budva, which was focused on the Bank's capital adequacy assessment. The inspection revealed no material weaknesses or irregularities.

Subsequent to the reporting date, December 31, 2014, the Bank recorded a non-adjusting event pertaining to the receivable per loan extended to the customer VG Moto d.o.o., Bar, where, on January 27, 2015, the Bank received the Decision of the Real Estate Directorate on definite and final registration of ownership right.

41. EVENTS AFTER THE REPORTING PERIOD (Continued)

Events after the Reporting Period Concerning Komercijalna banka a.d., Budva (Continued):

On March 25, 2015 the Real Estate Directorate issued the Bank an appraisal of the acquired property with the appraised value of RSD 24,092 thousand (EUR 199 thousand). As of December 31, 2014 the total gross receivables securitized with the aforesaid collateral amounted to RSD 36,701 thousand (EUR 303 thousand) with the recognized impairment allowance of RSD 7,537 thousand (EUR 62 thousand). As of March 31, 2015, the Bank formed impairment allowance for unsecured portion of these receivables totaling RSD 13,461 thousand (EUR 111 thousand) in the aggregate, including the additional impairment allowance charge for 2015 of RSD 5,924 thousand (EUR 49 thousand).

The Bank’s debtors with account blockade as of April 29, 2015 (the accounts of which were not blocked as of December 31, 2014) are the following: K.M.G. Čolović d.o.o., Danilovgrad, Simgor d.o.o., Podgorica, Apoteka Stari Grad Budva, Budva, Televizija Vijesti d.o.o., Podgorica, Topolovo Cop d.o.o., Nikšić, Trim Line d.o.o., Nikšić, Zigma a.d., Nikšić and Intermost d.o.o., Podgorica.

The Bank’s debtors over which bankruptcy proceedings were instigated in 2015 are the following: Simgor d.o.o., Podgorica, Radio Elmag d.o.o., Podgorica, MB BIS d.o.o., Podgorica and Magic Rent a Car d.o.o., Budva.

The Bank is currently considering rescheduling of the loan approved to the Municipality of Budva.

In Q1 2015 as compared to Q1 2014, the following most significant differences within the Bank’s income statement have been identified:

- The Bank’s earnings within interest income decreased by RSD 22,619 thousand (EUR 187 thousand);
- Impairment allowances decreased by RSD 25,522 thousand (EUR 211 thousand) primarily as a result of accounting for assets acquired in lieu of debt collection from the customer MB Bankada d.o.o., Budva, based on which impairment allowance was reversed in the amount of RSD 25,643 thousand (EUR 212 thousand); and
- Impairment allowance charge increased by RSD 37,376 thousand (EUR 309 thousand) as a result of the calculated interest on impaired loans and increase in the number of days past due in collection of receivables from certain customers.

The Bank’s new management took office on February 22, 2015 and is currently considering the policies, procedures and methodologies the Bank applies in its operation and analyzing all the financial information related to the significant balance sheet items, including assets acquired in lieu of debt collection.

Events after the Reporting Period Concerning Komercijalna banka a.d., Banja Luka:

At its session held on April 24, 2015 the Shareholder Assembly of Komercijalna banka a.d., Banja Luka enacted Decision on the Adoption of the Annual Financial Statements of the Bank as of December 31, 2014, the Annual Business Operation Report of the Bank for 2014 with the independent auditor’s report and the Business Strategy and Business Plan for the period from 2015 to 2017.

Subsequent to the reporting date, December 31, 2014, the Bank recorded a non-adjusting event pertaining to the receivable per loan extended to the customer Rudnap d.o.o., Banja Luka. The account of Rudnap d.o.o., Banja Luka has been blocked by the Bank since January 20, 2015 for the amount of the currently matured liability as of that date.

After the aforesaid event came to the Bank’s knowledge, the Bank undertook measures to estimate the potential effect thereof on its financial performance in 2015 in accordance with the IAS/IFRS, the Bank’s internal methodology and the Decision on the Minimum Standards for Credit risk Management and Bank Asset Classification (Official Gazette of the Republic of Srpska, nos. 49/2013 and 01/2014).

41. EVENTS AFTER THE REPORTING PERIOD (Continued)

Events after the Reporting Period Concerning Komercijalna banka a.d., Banja Luka (Continued):

In applying the methodology on amendments and supplements to the Methodology for Determining Impairment Allowance of Balance Sheet Assets and Provisions for Losses per Off-Balance Sheet Items adopted by the Bank's competent bodies in February 2015, the Bank estimated that as of December 31, 2015 its impairment allowance charge will increase as compared to December 31, 2014 by RSD 4,886 thousand (BAM 79 thousand). The Bank further estimated that as of December 31, 2015 it will make additional reserves for credit losses as per the regulations of the Banking Agency of the Republic of Srpska in the amount of RSD 166,982 thousand (BAM 2,700 thousand).

Events after the Reporting Period Concerning the Investment Fund Management Company KomBank INVEST a.d., Beograd:

On January 27, 2015, the competent Commercial Court of Belgrade adjudicated against the defendants: the Company and its legal representative Mr. Danilo Vuksanović for exceeded deadline for submission of the financial statements for the year 2012. The Commercial Court ruled as follows:

1) Defendant Company shall be fined RSD 20 thousand; and
2) Defendant Legal Representative of the Company, Mr. Danilo Vuksanović from Belgrade, as the responsible person, shall be fined RSD 4 thousand.

The aforesaid fines will not be executed if, within a year, the defendants do not commit another commercial offence and unless the defendant responsible person commits a criminal act with characteristics of a commercial offence. The defendant legal entity shall undertake to pay the amount of RSD 5 thousand for the court fees within 15 days from the ruling finality date under duress of enforced collection.

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual asset/liability count performed as of December 31, 2014, the Parent Bank had unreconciled outstanding item statements totaling RSD 11,007 thousand. Statements unreconciled with 40 customers mostly relate to the clients contesting the amount or the manner of calculation of interest and fees, those with accounts blocked or those contesting the amounts outstanding as per their respective reorganization plans.

Komercijalna banka a.d., Banja Luka had no unreconciled outstanding item statements. Komercijalna banka a.d. Budva had unreconciled outstanding item statements totaling RSD 298 thousand.

Unrealized Dividends

Unrealized dividends payable in 2015 amount to:

- RSD 538,753 thousand for 2014 (6.29 % of the par value of preferred shares).
- RSD 123,900 thousand for 2013 (9.91% of the par value of convertible preferred shares).

42. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2014 and 2013 were as follows:

	NBS official spot exchange rate		NBS average exchange rate	
	2014	2013	2014	2013
USD	99.4641	83.1282		
EUR	120.9583	114.6421	117.2478	113.0924
CHF	100.5472	93.5472		
BAM	61.8450	58.6156	59.9478	57.8232

Annual Report on Business Operations for the year 2014

Komercijalna Banka Group

CONTENTS

Summary – Consolidated Financial Statements of Komercijalna banka A.D., Beograd Group for 2014

The stated financial statements are submitted to the Bank's Board of Directors, pursuant to the Article 73 of the Law on Banks, and in compliance with the Article 27 of the Bank's Articles of Association.

In accordance with the Article 32 of the Law on Accounting „Financial Statements are adopted by the General Meeting of Shareholders or another competent body of the legal entity“

- Komercijalna banka a.d., Beograd Group comprises:
  - Komercijalna banka a.d., Beograd – as the Parent bank
  - Komercijalna banka a.d., Budva – as the Group member
  - Komercijalna banka a.d., Banja Luka – as the Group member
  - Investment Fund Management Company KomBank INVEST a.d., Beograd – as the Group member.
- Consolidation of the financial statements of Komercijalna banka Group was performed in compliance with the Law on Accounting and IFRS 10 – "Consolidated financial statements", and also in line with the Instructions for Preparation of Consolidated Financial Statements.
- Subsidiaries: Komercijalna banka a.d., Budva and Komercijalna banka a.d., Banja Luka maintain books of accounts and prepare financial statements in accordance with the accounting regulations of the Republic of Montenegro, and/or of Republic of Srpska, while KomBank INVEST a.d., Beograd prepares them in compliance with the regulations applicable in the Republic of Serbia, which govern this area of operations. For the purpose of preparing consolidated financial statements the stand-alone financial statements of subsidiaries and of KomBank INVEST are adjusted to financial statements presentation based on accounting regulations of the Republic of Serbia.
- In order to prepare consolidated financial statements, Komercijalna banka a.d., Beograd, as the Parent bank, made a reclassification, adjustment and merging of the financial statements of the Group members with its own individual statements.
- In the process of preparation of consolidated financial statements, full consolidation method has been applied. Consolidation has been implemented by connecting all the same type of assets, liabilities, share capital, income and expenses, with exclusion of all values contained in individual accounts, which originate from the internal relations of the Group members.
- In conducted consolidation procedure the following is entirely eliminated:
  - Amount of stake held by the Parent bank in the equity of the subsidiaries,
  - Internal receivables and liabilities among all Group members,
  - Internal income and expenses among all Group members,
  - Incurred unrealized internal gains and
  - Incurred unrealized internal losses.
- Balance sheet assets of the Group at the end of 2014 amount to RSD 430.702 million and is increased by 12,1% relative to the previous year.
- Komercijalna banka Group realized in 2014 a profit before tax in the amount of RSD 4.793 million, which compared to preceding year represents an increase of 8,9%.

Since the consolidation of financial statements of Komercijalna banka Group was conducted on the basis of stand-alone financial statements, report of the external auditor on performed audit of business operations of the Parent bank and the Banking group members for the year 2014, in accordance with the Law on Accounting and IFRS 10 – " Consolidated financial statements ", Law on the Capital Market and the regulations of the National Bank of Serbia, it is therefore proposed to the Board of Directors to adopt the Draft Consolidated Financial Statements of Komercijalna banka a.d., Beograd Group for the year 2014 and to forward them, in line with the Article 14 of the Bank's Articles of Association to the General Meeting of Bank's Shareholders for adoption.

EXECUTIVE BOARD

Consolidated financial statements of the banking group are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent bank.

Functional currencies, EUR from financial statements of Komercijalna banka a.d., Budva and BAM from financial statements of Komercijalna banka a.d., Banja Luka, are translated into the reporting currency of the Parent bank – dinar (RSD) on the basis of official exchange rates published in the Republic of Serbia.

Consolidated Income Statement and Consolidated Cash Flow Statement for the reporting period have been reclassified by applying the average official exchange rate in the Republic of Serbia for the year 2014 of RSD 117,2478 for one EUR and RSD 59,9478 for one BAM, while other consolidated financial statements (balance sheet, statement of changes in equity and report on other results) by applying the closing exchange rate effective as of the balance sheet date of RSD 120,9583 for one EUR, and/or RSD 61,8450 for one BAM.

Business changes having occurred in foreign currency are translated into dinars (RSD) at middle exchange rate as determined in the interbank foreign exchange market applicable as of the date of business change.

Assets and liabilities stated in foreign currency as of the consolidated balance sheet date are translated into dinars (RSD) at middle exchange rate as determined in the interbank foreign exchange market that was applicable on such date.

GROUP'S KEY PERFORMANCE INDICATORS

ITEM	2014[1]	2013	INDICES 2014/2013	2012	2011	2010
In thousand RSD and percentages						
Profit before tax	4.792.801	4.400.642	108,9	4.572.662	3.952.066	2.791.964
Net interest income	14.436.051	14.128.460	102,2	10.910.317	9.853.368	7.437.483
Net fee income	4.983.940	4.829.281	103,2	4.554.466	4.423.399	3.892.459
PROFITABILITY INDICATORS						
ROA	1,2%	1,2%		1,4%	1,4%	1,5%
ROE (on share capital)	12,0%	11,0%		12,9%	14,0%	13,9%
ROE (on total capital)	6,9%	6,8%		8,2%	9,0%	10,5%
Net interest margin on total assets	3,5%	3,9%		3,5%	3,7%	3,1%
Cost / income ratio	62,7%	63,1%		65,1%	64,4%	76,1%
Operating and other expenses	12.170.559	11.961.385	101,7	11.040.394	10.039.654	9.488.317
Net expenses from loan impairment charges	2.821.458	3.359.720	84,0	1.946.369	1.488.299	1.581.301
Consolidated balance sheet assets	430.702.109	384.296.023	112,1	342.267.358	292.679.098	272.203.483
Loans and receivables	239.562.636	231.234.880	103,6	217.721.333	169.380.487	163.214.267
Deposits and other liabilities	347.341.972	306.302.650	113,4	269.884.506	219.922.916	212.627.373
CAPITAL	72.100.729	67.041.696	107,5	62.073.150	46.044.022	42.735.634
Capital adequacy	18,7%	19,9%		22,4%	18,3%	18,7%
Number of employees	3.178	3.233	98,3	3.254	3.282	3.343
Assets per employee	135.526	118.867	114,0	105.184	89.177	81.425

[1] As of December 31st, 2014 new Chart of accounts for banks has been applied. For reasons of comparability of balance sheet data ''translation'' was performed of balance sheet formats for 2012 and 2013 to new chart of accounts.

1. Brief Description of business activities and Organizational Structure of the Group

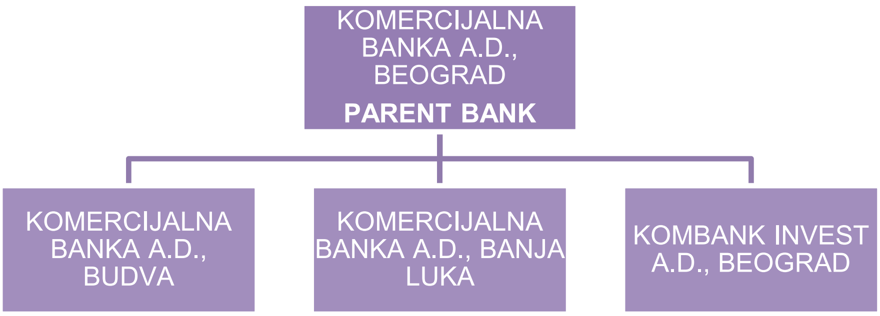
Banking Group within the registered activities performs the following operations:

- Deposit operations (accepting and placing deposits),
- Lending operations (lending and borrowing),
- Foreign exchange , foreign exchange-currency and exchange operations;
- Payment system operations;
- Issuance of payment cards;
- Securities operations (issue of securities, custody bank operations and other);
- Broker-dealer operations;
- Issuance of guarantees, sureties and other forms of guarantees (guarantee operations);
- Purchase, sale and collection of receivables (factoring, forfeiting and other);
- Insurance agency activities, upon prior consent of the National Bank of Serbia;
- Operations for which it is authorized by law;
- Other operations which are essentially similar or related to the operations referred to in Items 1) to 11) of this paragraph, in line with the Bank's Memorandum of Association and the Articles of Association.
- Organizing and managing investment funds.

The Parent Bank has been authorized for performing international payment transactions since 2003, for performing activities of broker-dealer company since 2005, and for performing activities of custody bank since 2006.

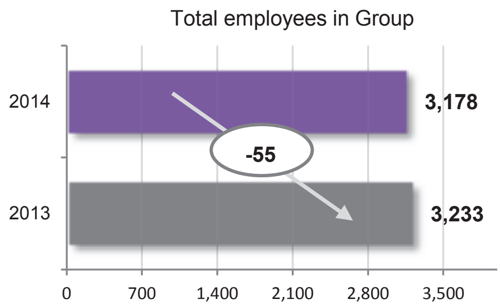
The Banking Group consists of three banks (Parent and two banks – subsidiaries) and one Investment Fund Management Company.

Organizational Chart of Komercijalna Banka a.d., Beograd Group:



Employment in KB Group:

As of December 31st, 2014 the Group had in total 3.178 employees, or 55 less than in the preceding year. Reduction occurred in the Parent bank (60), while Banja Luka (1) and Budva (4) recorded a slight increase in number of employees. The number of employees in KB Invest remained unaltered.



KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA
100% owned by Bank	99,998% owned by Bank

Komercijalna banka a.d., Budva was established in November 2002 as affiliation of Komercijalna banka a.d., Beograd and was registered in the central register of the Commercial Court in Podgorica on March 6th, 2003.

- 124 employees,
- 17 organizational units (F/A)

Komercijalna banka a.d., Banja Luka was established in September 2006 and on September 15th, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka.

- 144 employees,
- 26 organizational units (F/A)

KOMBANK INVEST A.D., BEOGRAD
100% owned by Bank

Investment Fund Management Company (IFMC) **KomBank INVEST a.d., Beograd** is the company registered in the Business Entities Register of the Serbian Business Registers Agency on February 5th, 2008.

The company is established as the closed joint stock company which operates in accordance with the Law on Investment Funds, Rulebook on Investment Funds and Rulebook on Operating Requirements for Investment Fund Management Companies.

At the end of 2014, the Company managed three investment funds, as follows:

1. KomBank IN FOND, open-end investment fund, with increased asset value (share fund)[2]
2. KomBank NOVČANI FOND, open-end investment fund with preserved asset value (money fund)
3. KomBank DEVIZNI FOND, open-end investment fund with preserved asset value (money fund)

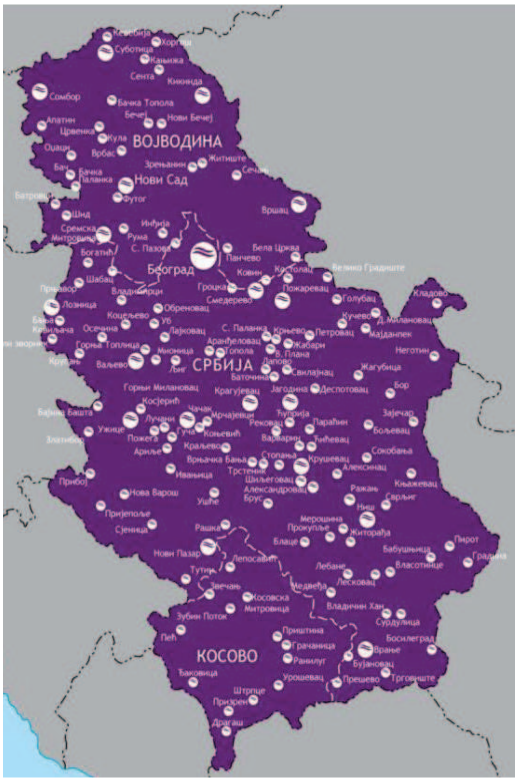
[2] At the year-end decision was made to change the type of fund from share to balanced fund. Decision came into force upon rendering the Decision of Securities Commission in January 2015

Basic data on Head Offices of Group members:

	KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA	IFMC KomBank INVEST A.D., BEOGRAD
ADDRESS	Podkošljun bb	Veselina Masleše 6	Kralja Petra 19
TELEPHONE	00382-33-426-300	00387-51-244-700	011-330-8156

Parent Bank Komercijalna banka a.d., Beograd:

	BRANCH	REGISTERED SEAT
1.	Kruševac	Trg fontana 1
2.	Niš	Episkopska 32
3.	Zrenjanin	Trg Slobode 5
4.	Čačak	Gradsko šetalište 10-14
5.	Kraljevo	Trg S. Ratnika bb
6.	Novi Pazar	Njegoševa 1
7.	Novi Sad	Novosadskog sajma 2
8.	Užice	Petra Ćelovića 4
9.	Vranje	Stefana Prvovenčanog 58
10.	Valjevo	Gradski Trg bb
11.	Subotica	Korzo 10
12.	Šabac	Gospodar Jevremova 2
13.	Kragujevac	Save Kovačevića 1
14.	Smederevo	Karađorđeva 37
15.	Požarevac	Moše Pijade 2
16.	Jagodina	Kneginje Milice 10
17.	Loznica	Gimnazijska 1
18.	S. Mitrovica	Kralja Petra I 5-7
19.	Zaječar	Nikole Pašića 25
20.	Kikinda	Braće Tatić 7
21.	Sombor	Staparski Put 14
22.	Vršac	Trg Svetog Teodora Vršačkog 2
23.	Beograd	Svetogorska 42 - 44
24.	K. Mitrovica	Kneza Miloša 27



- 2.906 employees,
- 218 sub-branches which are organizationally related to 24 branches at the regional level

STREET NAME	Svetog Save 14	Svetogorska 42-44	Makedonska 29
TELEPHONE	381 11- 30-80-100	381-11-32-40-911	381-11-33-39-001
TELEX	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU
FAX	3442-372	32-36-160	33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
INTERNET E - mail	*posta@ kombank.com*	*posta@ kombank.com*	*posta@ kombank.com*

2. Financial Position and Performance Indicators of the Group

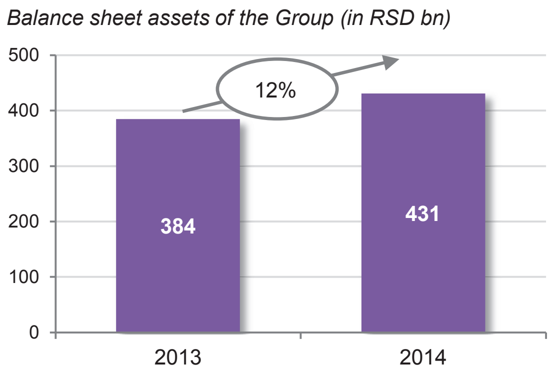
2.1. Macroeconomic Environment

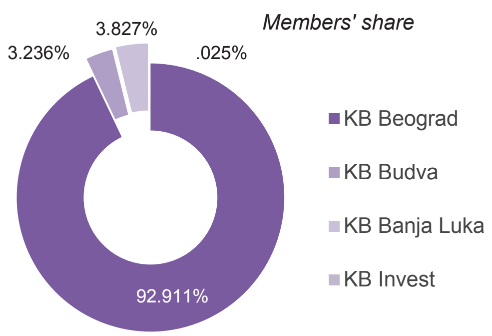
Macroeconomic operating conditions of the Group members according to available data of the relevant institutions:

Macroeconomic indicators	SERBIA	REPUBLIC OF SRPSKA	MONTENEGRO
Gross Domestic Product	33,01 EUR bn	8,61 BAM bn	3,39 EUR bn
GDP trends	Decline 1,8%	Decline 1,70%	Growth 2,0 %
Consumer Price Index	1,70%	-1,20%	-0,70%
Banking sector assets	Growth 3,9%	Growth 3,0 %	Growth 5,9%
Functional currency	RSD	BAM	EUR
Industrial production	Decline 6,5%	Growth 0,6 %	Decline 7,5 %
Foreign direct investments	1,24 EUR bn	0,2 BAM bn	0,4 EUR bn
NPL of banking sector	22,50%	16,79%	15,87%
Unemployment rate	17,60%	25,70%	14,95%

2.2. Operations of Komercijalna Banka a.d., Beograd Group

ITEM	2014	2013	2012	2011	2010
In RSD thousand					
GROUP'S BALANCESHEET ASSETS	**430.702.109**	384.296.023	342.267.358	292.679.098	272.203.483
Komercijalna banka a.d., Beograd	**400.168.484**	356.638.947	317.898.559	270.003.848	250.379.734
Komercijalna banka a.d., Budva	**13.939.441**	12.197.246	10.422.000	9.456.653	8.987.204
Komercijalna banka a.d., Banja Luka	**16.484.378**	15.354.014	13.844.837	13.119.415	12.720.668
KomBank INVEST a.d., Beograd	**109.805**	105.816	101.962	99.182	115.877



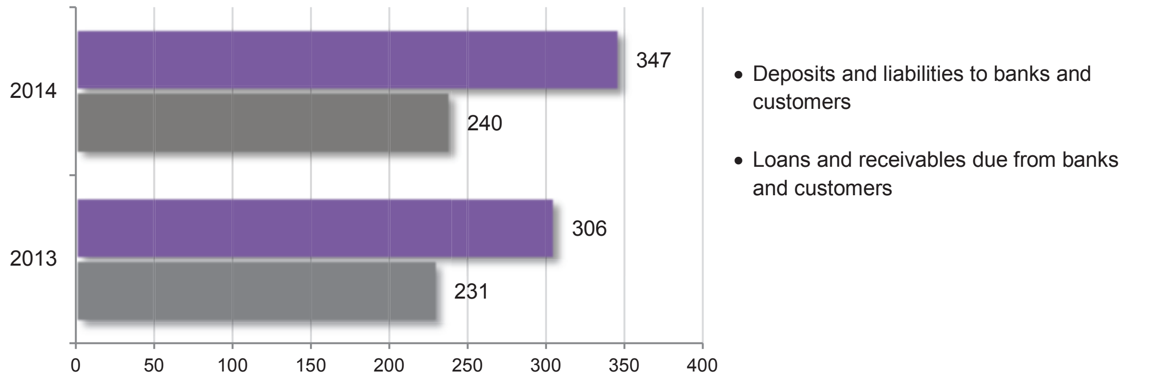


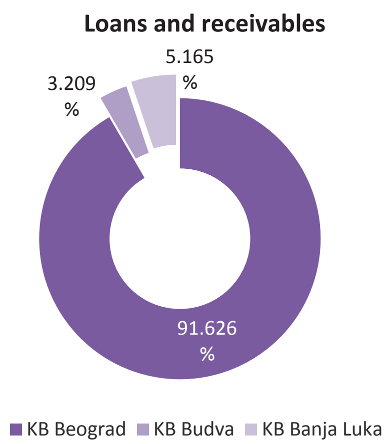
Balance sheet assets of the Group recorded a growth of 12,1% in the previous year. Share of the Parent bank in total assets of the Group increased when compared to the preceding year, as did the share of KB Budva, whereas the share of KB Banja Luka decreased.

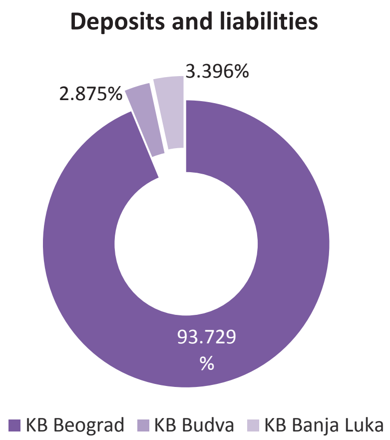
Overview of loans & advances and liabilities of banks and customers as of December 31st, 2014 by Group members

ITEM	2014	2013	2012	2011	2010
In RSD thousand					
LOANS AND RECEIVABLES DUE FROM BANKS AND CUSTOMERS	**239.562.636**	231.234.880	217.721.333	169.380.487	163.214.267
Growth percentage	**3,6%**				
Komercijalna banka a.d., Beograd	**219.502.491**	212.141.510	199.465.741	155.719.207	150.566.311
Komercijalna banka a.d., Budva	**7.687.740**	7.630.520	7.300.499	5.615.791	5.179.892
Komercijalna banka a.d., Banja Luka	**12.372.405**	11.462.850	10.955.093	8.045.489	7.468.064
KomBank INVEST a.d., Beograd	**-**	-	-	-	-
DEPOSITS AND LIABILITIES TO BANKS AND CUSTOMERS	**347.341.972**	306.302.650	269.884.506	219.922.916	212.627.373
Growth percentage	**13,4%**				
Komercijalna banka a.d., Beograd	**325.559.503**	286.908.736	252.888.160	205.917.714	199.072.251
Komercijalna banka a.d., Budva	**9.987.090**	8.134.122	6.963.203	4.932.913	4.768.923
Komercijalna banka a.d., Banja Luka	**11.795.379**	11.259.792	10.033.143	9.072.289	8.786.199
KomBank INVEST a.d., Beograd	**-**	-	-	-	-

Loans and receivables, deposits and other liabilities (in RSD bn)







2.2.1. Consolidated Balance Sheet

Consolidated Assets of the Group as of December 31st, 2014

In RSD thousand

No.	ITEM	December 31st, 2014	December 31st, 2013	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31.12.2014
	ASSETS				
1.	Cash and funds held with the Central Bank	72.633.528	75.136.496	96,7	16,9%
2.	Financial assets at fair value through income statement held for trading	121.634	115.319	105,5	0,0%
3.	Financial assets available for sale	98.958.788	58.986.673	167,8	23,0%
4.	Financial assets held to maturity	390.015	426.901	91,4	0,1%
5.	Loans and receivables due from banks and other financial organizations	35.733.988	35.680.426	100,2	8,3%
6.	Loans and receivables due from customers	203.828.648	195.554.454	104,2	47,3%
7.	Intangible investments	451.205	589.010	76,6	0,1%
8.	Real-estate, buildings and equipment	6.605.496	6.872.601	96,1	1,5%
9.	Investment property	2.711.213	1.934.318	140,2	0,6%
10.	Current tax assets	79.572	725.010	11,0	0,0%
11.	Deferred tax assets	5	47	10,6	0,0%
12.	Non-current assets held for sale and funds from discontinued operations	137.802	75.968	181,4	0,0%
13.	Other assets	9.050.215	8.198.800	110,4	2,1%
	TOTAL ASSETS (from 1 to 13)	**430.702.109**	**384.296.023**	**112,1**	**100,0%**

Balance sheet assets of the Group in 2014 increased in comparison to preceding year by RSD 46.406,1 million or 12,1%. Loans to customers are increased by RSD 8.274,2 million, and/or 4,2%. As of December 31st, 2014 total loans and advances to customers equaled 47,3% of total balance sheet assets.

Significant increase in the reporting period was realized on the position financial assets available for sale in the amount of RSD 39.972,1 million or 67,8%. Growth in loans and advances has been realized through investment in government securities.

The highest nominal reduction is recorded at the position cash and funds held with the Central Bank in the amount of RSD 2.503,0 million, however in percentage that represents a change of only 3,3%.

Consolidated liabilities of the Group as of December 31st, 2014

In RSD thousand

No.	ITEM	December 31st, 2014	December 31st, 2013	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31.12.2014
	LIABILITIES				
1.	Deposits and other liabilities to banks, other financial organizations and Central Bank	26.247.764	23.227.373	113,0	6,1%
2.	Deposits and other liabilities to other customers	321.094.208	283.075.277	113,4	74,6%
3.	Subordinated liabilities	6.036.680	5.711.409	105,7	1,4%
4.	Provisions	1.732.069	835.311	207,4	0,4%
5.	Current tax liabilities	14.726	17.765	82,9	0,0%
6.	Deferred tax liabilities	160.991	13.131	1.226,0	0,0%
7.	Other liabilities	3.314.942	4.374.061	75,8	0,8%
8.	**TOTAL LIABILITIES (from 1 to 8)**	**358.601.380**	**317.254.327**	**113,0**	**83,3%**
	CAPITAL				
12.	Share capital	40.034.550	40.034.550	100,0	9,3%
13.	Profit	6.925.972	6.868.966	100,8	1,6%
14.	Reserves	25.140.140	20.138.117	124,8	5,8%
15.	Non-controlling interest	67	63	106,3	0,0%
16.	**TOTAL CAPITAL (from 12 to 15)**	**72.100.729**	**67.041.696**	107,5	16,7%
17.	**TOTAL LIABILITIES**	**430.702.109**	**384.296.023**	**112,1**	**100,0%**

Total liabilities of the Group at the end of 2014 amounted to RSD 358.601,4 million and account for 83,3% of total liabilities. Total liabilities increased relative to previous year by RSD 41.347,1 million (13,0%). The increase in liabilities was mainly affected by the growth of deposits and other liabilities of the customers in the amount of RSD 38.018,9 million (13,4%).

Deposits and other liabilities to banks and other financial organizations grew by RSD 3.020,4 million or 13,0% annually.

Total capital of RSD 72.100,7 million accounts for 16,7% in total liabilities. Total capital has been increased by 7,6% or RSD 5.059,0 million compared to the previous year. Increase of capital is a result of growth of reserves in the amount of RSD 5.002,0 million.

Proceeds from credit lines are intended primarily for approval to end users – retail customers for improvement of energy efficiency in buildings and home improvement and also for loans to small and medium enterprises for financing projects for the use of renewable energy sources.

Consolidated Balance Sheet as of December 31st, 2014 – members of the Banking Group

In RSD thousand

	ITEM	Belgrade	Budva	Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Item /ASSETS					
1	Cash and funds held with the Central Bank	68.547.389	1.471.748	2.614.390	-	72.633.528
2	Investments in securities	95.654.325	2.519.783	1.187.375	108.954	99.470.437
3	Loans and receivables due from banks and other financial organizations	34.125.456	1.321.213	287.319	-	35.733.988
4	Loans and receivables due from customers	185.377.035	6.366.527	12.085.086	-	203.828.648
5	Intangible investments	405.774	26.299	19.089	43	451.205
6	Real-estate, buildings and equipment	6.329.077	208573	67.778	68	6.605.496
7	Investment property	2.581.144	-	130.069	-	2.711.213
8	Other assets	7.148.284	2.025.298	93.272	740	9.267.594
9	**TOTAL ASSETS (1 to 8)**	**400.168.484**	**13.939.442**	**16.484.378**	**109.805**	**430.702.109**
	Item / LIABILITIES					
10	Deposits and other liabilities to banks and other financial organizations	23.604.592	299.887	2.343.285	-	26.247.764
11	Deposits and other liabilities to other customers	301.954.911	9.687.203	9.452.094	-	321.094.208
12	Subordinated liabilities	6.036.680	-	-	-	6.036.680
13	Provisions	1.640.595	53.120	37.771	583	1.732.069
14	Other liabilities	3.339.516	91.721	58.749	673	3.490.659
15	**TOTAL LIABILITIES (10 to 14)**	**336.576.294**	**10.131.931**	**11.891.899**	**1.256**	**358.601.380**
16	Capital and reserves	70.584.055	1.253.931	284.437	-21.694	72.100.729
17	**TOTAL LIABILITIES (15+16)**	**407.160.349**	**11.385.862**	**12.176.336**	**-20.438**	**430.702.109**

I	Assets by segments	**400.168.484**	**13.939.442**	**16.484.378**	**109.805**	**430.702.109**
-	***Structure of adjusted items***					
-	Consolidated cash	-3.914	-117.835	-10.831	-12	-132.592
-	Consolidated deposits to customers	-	-	-	-9.745	-9.745
-	Consolidated loans to customers	-604.792	-	-	-	-604.792
-	Consolidated receivables for interest	-3.443	-	-	-3	-3.446
-	Consolidated accrued interest and other	-3	-	-	-	-3
-	Consolidated stakes	-5.480.888	-	-	-	-5.480.888
II	**Assets by segments**	**406.261.524**	**14.057.277**	**16.495.209**	**119.565**	**436.933.575**

I	**Liabilities by segments**	**407.160.349**	**11.385.862**	**12.176.336**	**-20.438**	**430.702.109**
-	***Structure of adjusted items***					
-	Consolidated deposits	-138.423	-3.914	-	-	-142.337
-	Consolidated borrowings	-	-	-604.792	-	-604.792
-	Consolidated liabilities for interest and other	-3	-	-3.443	-3	-3.449
-	Consolidated capital	1.681.794	-3.312.044	-3.710.638	-140.000	-5.480.888
-	Intragroup dividends	-644.543	644.543	-	-	0
II	**Liabilities by segments**	**406.261.524**	**14.057.277**	**16.495.209**	**119.565**	**436.933.575**

II	Balance sheet total in original currency	406.261.524 th/din	116.216 th/EUR	266.719 th/KM	119.565 th/din

2.2.2. Consolidated Income Statement

The consolidation procedure requires that from stand-alone income statements all items should be eliminated that originate from interrelated business transactions: interests, fees, commissions and other income/expenses.

In 2014 Komercijalna banka a.d. Group realized a profit after tax in the amount of RSD 4.795,4 million, which represents year-on-year increase by 7,5%.

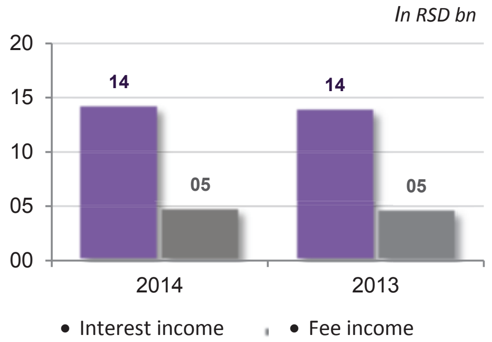
Consolidated Income Statement for the Period from January 01st – December 31st, 2014

In RSD thousand

No.	ITEM	December 31st, 2014	December 31st, 2013	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	22.791.487	23.646.698	96,4
1.2.	Interest expenses	8.355.436	9.518.238	87,8
1.	**Net interest income**	**14.436.051**	**14.128.460**	102,2
2.1.	Fee and commission income	6.030.531	5.827.288	103,5
2.2.	Fee and commission expenses	1.046.591	998.007	104,9
2.	**Net fee and commission income**	**4.983.940**	**4.829.281**	103,2
3.	Net gain on financial assets held for trading u	7.022	22.826	30,8
4.	Net gain on financial assets available for sale	79.245	1.738	4.559,6
5.	Net losses on foreign exchange transactions and effects of contracted currency clause	200.284	35.592	562,7
6.	Other operating income	478.844	775.034	61,8
7.	Net losses on impairment of financial assets and off-balance sheet credit risk items	2.821.458	3.359.720	84,0
8.	**TOTAL NET OPERATING INCOME**	**16.963.360**	**16.362.027**	103,7
9.	Salaries, fringe benefits and other personal expenses	4.745.269	4.784.895	99,2
10.	Depreciation costs	932.851	878.973	106,1
11.	Other expenses	6.492.439	6.297.517	103,1
12.	**PROFIT BEFORE TAX (FROM 1 TO 11)**	**4.792.801**	**4.400.642**	108,9
13.	Profit tax	23.148	24.679	93,8
14.	Profit from deferred tax	47.547	89.038	53,4
15.	Loss from deferred tax	21.823	3.063	712,5
16.	**PROFIT AFTER TAX (FROM 12 TO 15)**	**4.795.377**	**4.461.938**	107,5
17.	Net gain/loss related to minority stakeholders	-	-	-
18.	**Net profit related to parent entity**	**4.795.377**	**4.461.938**	107,5
19.	Basic earnings per share	253	468	54,1
20.	Diluted earnings per share	253	242	104,6

In conditions prevailed by reduced demand for loans and by trends of reduction in interest rates, the Group's interest income recorded a decline compared to the previous year. However, given the fact that in the same period the interest expenses were decreased in a larger amount, the net effect on annual basis is positive, thus net interest income records a growth of RSD 308 million or 2,2%.

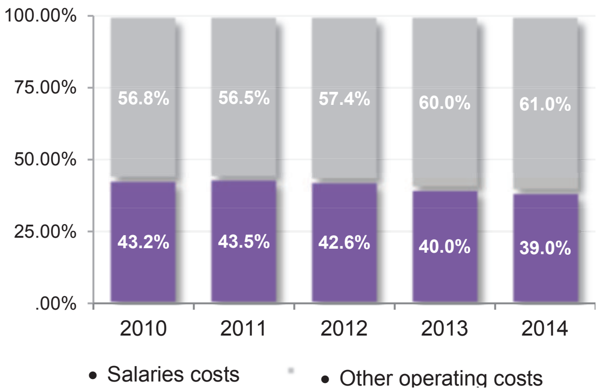
Decrease in interest income is partially a result of conducted IRC (Interest Revenue corrections) method[3] only for the year 2014.



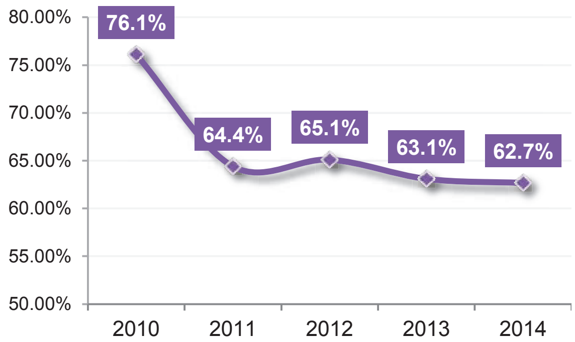
Net fee income also records an increase in comparison to the previous year in the amount of RSD 155 million (3,2%), due to increase in fee and commission income of RSD 203 million (3,5%), and somewhat lower growth of fee expenses in the amount of RSD 49 million (4,9%).

At the Group level in the course of 2014 the policy of active operating costs management continued in terms of rationalization of operating costs. The key factor of profitability in 2014 was the introduction of extraordinary deposit insurance premium, which burdened the result or the operating costs with the additional RSD 440 million.

Structure of operating and other costs

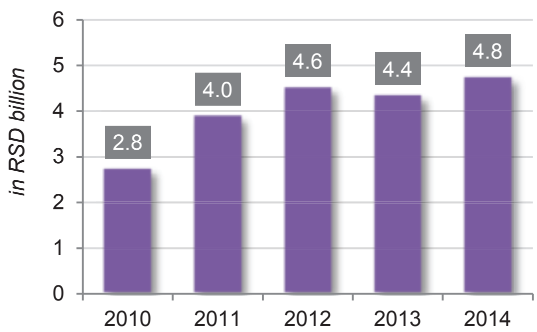


Cost-income ratio

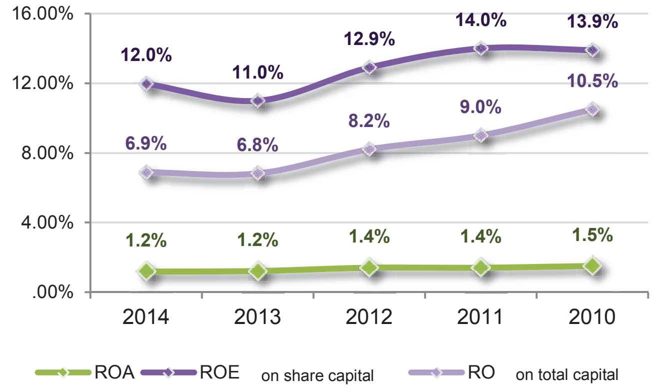


Operating profit increased by RSD 392 million (8,9%) compared to the previous business year. Performance indicators also show the enhancement in comparison to the previous year.

Profit before tax



Profitability indicators



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[3] Netting of costs of allowance for impairment for receivables for interest of the current period with the interest income (IAS 39)

Consolidated P&L statement by Group members January the 1st through December 31st 2014

RSD thousand

	POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL OF THE GROUP
1	2	3	4	5	6	7
1	Interest income	21.201.809	761.069	814.094	14.515	22.791.487
2	Interest expenses	7.925.768	204.481	225.187	-	8.355.436
3	**Net interest income/expenses (1+2)**	**13.276.041**	**556.588**	**588.907**	**14.515**	**14.436.051**
4	Fee income	5.673.838	160.860	192.147	3.686	6.030.531
5	Fee expenses	956.714	34.207	55.023	647	1.046.591
6	**Net fee income/expenses (4+5)**	**4.717.124**	**126.653**	**137.124**	**3.039**	**4.983.940**
7	**Other operating income**	**505.860**	**21.158**	**37.128**	**965**	**565.111**
8	**Net income/expenses from indirect loan write-offs**	**-2.725.389**	**28.994**	**-125.063**	**-**	**-2.821.458**
9	Costs of gross salaries	4.211.489	251.793	271.413	10.574	4.745.269
10	Other operating costs	6.742.482	328.846	347.489	6.473	7.425.290
11	**OPEX (9+10)**	**10.953.971**	**580.639**	**618.902**	**17.047**	**12.170.559**
12	**Net ex.rate differentials and FX clause effect**	**-206.145**	**5.958**	**-74**	**-23**	**-200.284**
I	**RESULT BY SEGMENTS (3+6+7+8-11+12)**	**4.613.520**	**158.712**	**19.120**	**1.449**	**4.792.801**
	Structure of adjusted positions					
-	Consolidated net interest	-22.545	12.555	10.015	-25	0
-	Consolidated net fees	-633	805	-228	56	0
-	Dividend paid to Parent Bank	-120.689	-	-	-	-120.689
-	Ex.rate by mutual relations	-202	-2.840	-224	-	-3.266
II	**Result by segments**	**4.757.589**	**148.191**	**9.557**	**1.419**	**4.916.756**
III	**Profit before tax in original currency (000)**	**4.757.589 K/Din**	**1.264 K/EUR**	**159 K/BAM**	**1.419 K/Din**	

3. Investments in order to protect the environment

The adoption of policies and procedures on environmental and social protection at the Bank Group, the Group has defined standards for identifying and managing environmental and social protection in the process of approving and monitoring loans. Internal regulations defined the procedure for addressing and responding to complaints from direct or indirect impact of business activities on the environment and society.

By contracting credit lines to finance investments to increase energy efficiency and development of renewable energy, loans were approved that provide energy from green sources, which reduce the emission of carbon dioxide.

Review of tied credit lines:

EFSE	EUR 15,000,000 (lending to borrowers – retail customers in order to improve energy efficiency of residential buildings)
EBRD	EUR 10,000,000 (financing of energy efficiency projects and projects aimed at the use of renewable energy sources for the private sector – small and medium-sized companies and local government)

Through categorization of loans depending on the level of risk to the environment and society, the Group estimates to what percentage the activities that may have harmful consequences for the environment are financed. Also, the Group continuously monitors the extraordinary events of its customers, which may have a negative impact on the environment, health or safety or the community as a whole, and regularly informs management bodies and the shareholders of the Bank thereof.

In order to protect the environment and minimize the possibilities for the occurrence of events that may have a materially adverse effect on the environment, health or safety or the community as a whole, the Bank does not finance customers whose main activity is associated with the production of, or trade in arms and ammunition, alcoholic beverages, radioactive materials and other technologies that can have a negative impact on the environment.

Humanitarian and other actions - socially responsible behaviour

In the previous year, the Parent Bank donated significant sums for the purpose of eliminating the consequences of floods. The most important humanitarian campaign that the Parent Bank helps is "Together for babies" in collaboration with the B92 Fund, owing to which the medical equipment for four maternity hospitals was purchased last year.

ZAJEDNO ZA BEBE

We continued to sponsor Kombank Arena, as the most prestigious sports and concert facility in the country. 17 concerts and 12 sporting events were held there.

The Bank has provided support to our athletes who won medals at European and international level - the basketball team, Taekwondo club Galeb – Milica Mandić, Athletic Federation of Serbia - Ivana Španović and Mihailo Dudaš.

The Bank has helped the growing number of humanitarian, cultural, artistic and sports projects and actions, and in our gallery space KOMBANK ART HOL we held 17 highly visited exhibitions.

All marketing activities are coordinated with bank subsidiaries in Montenegro and the Republic of Srpska.

4. Significant events after the end of the financial year

One General Meeting of Parent Bank's Shareholders was held in the period from December the 31st until February 28th 2015.

- Regular session of the General Meeting of Parent Bank's Shareholders was held on January 26, 2015.

The following decision was passed at the session: on adoption of the Strategy and Business Plan of the Bank covering 2015-2017.

Other important events after the end of the financial year are disclosed in the Notes to the Consolidated Financial Statements – Note No. 41.

5. Planned future development

The business environment in the coming period will be marked by low growth in traditional banking (credit transactions) with relatively high levels of NPLs. The pressure on net interest income will continue to grow, due to low inflation rates that dictate the policy of the National Bank of Serbia to be of a restrictive character. High uncertainty lies in the effects of structural reforms of the public finances, which put extra pressure on aggregate demand. The operating costs of the banking industry remain at a high level, so we can expect these to be reviewed in the coming period.

The most significant changes in regulation and supervision are related to the implementation of Basel III standards, in part that refers to the regulatory capital, which will influence the capital adequacy ratio. The second change relates to the required liquidity. These changes will impact the further strengthening of capital and improve risk management processes, but also the increase in operating costs. The Group is in the phase of evaluation of the effects of the regulatory measures.

Conditioned by difficult macroeconomic conditions, the Group continues to operate with a conservative attitude towards risk. The focus remains on achieving the Group's long-term competitiveness. Geographically we will strive to allocate the most profitable funds depending on the situation on the markets.

The Group is also facing the beginning of privatization process.

Business policies were not changed in the past year, neither at Group level nor at the level of individual banks, members of the Group.

The Group passes strategy and business plan at the level of its members, depending on the local environment.

Business strategies are adopted at the level of members of the Group for a period of three years. The Strategy defines the mission, strategic goals and operating principles of each member of the Group with a focus on stable and sustainable business, which will be implemented through:

- Maintaining of interest margin;
- Raising the efficiency and
- Maintaining the portfolio quality against growth.

Mission and long-term commitments of the Group in the coming period remain:

- Universal Bank with equal focus on the corporate and retail segments;
- Orientation to the local markets

We can define the strategic objectives as:

- Managing all risks inherent to the Group's business;
- Sustainable profitability, thus creating the conditions for its growth in the post-crisis period.

The principles governing when setting objectives are as follows:

- Stability and long-term sustainability and value for shareholders;
- Prudence;
- Conservative approach.

Planned operating performances by members in the coming three years:

GROUP MEMBERS	BEOGRAD			BANJA LUKA			BUDVA		
Plan	2015	2016	2017	2015	2016	2017	2015	2016	2017
Asset growth	3,6%	5,2%	5,5%	5,5%	4,3%	3,4%	2,2%	3,9%	3,9%
ROE on share capital	11,9%	13,7%	15,4%	3,3%	4,1%	4,6%	6,3%	7,3%	8,6%
ROE on total capital	6,8%	7,5%	8,1%	3,0%	3,6%	4,0%	5,1%	5,7%	6,3%
ROA	1,2%	1,3%	1,4%	0,7%	0,9%	0,9%	1,5%	1,7%	1,9%
CIR	58,8%	55,5%	54,7%	74,6%	70,0%	66,3%	67,5%	63,8%	61,0%
Interest margin on total assets	3,4%	3,5%	3,6%	4,1%	4,2%	4,3%	4,7%	4,9%	5,0%

6. Research and development activities

Although the contribution of services in the GDP is significant, in terms of research and development the innovative process is significantly in favour of the product. When it comes to services, research and development activities relate to market research, brainstorming, a system of trial and error and innovative teams.

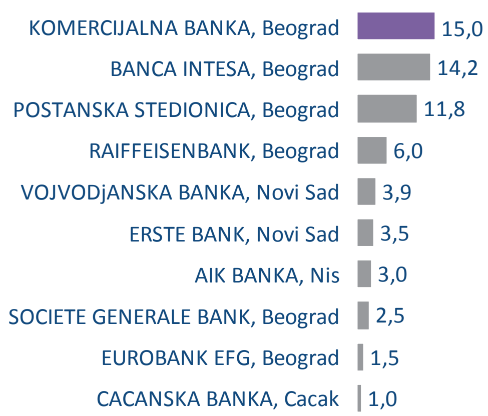
The focus of research and development activities is directed towards internet technologies and customer satisfaction, and the Group achieved significant results in this area. However, this is the domain of the greatest threat, since the use of the Internet provides the way in the market of companies that are not traditionally engaged in the banking business, and in this sense represent the greatest potential competition.

Banking Group continually monitors the activity in the market banking products, using the available personnel and hiring the specialized agencies for public opinion research.

Market research: *IPSOS Strategic Marketing, Banking omnibus, November 2014*

Agencies provide information concerning customer satisfaction, and according to the analysis they conducted, the Group has a leading position by brand recognition and quality of service.

The results of the research assist in making business decisions, particularly important in respect of the development of new and improvement and modification of the existing products and services.



In the process of continuous monitoring of market signals and needs of users and potential customers, business sectors of the Bank offered the customers some new and / or improved types of retail and micro-customer loans in the previous period; it also developed a whole range of services in the field of electronic banking, debit and credit cards.

The research and development results have been implemented in the Strategy and Business Plan of the Bank.

7. Purchase of own shares

Group members did not acquire its own shares in the previous fiscal year, and do not intend to acquire its own shares in the coming period.

8. Subsidiaries

Subsidiaries are: Komercijalna Banka a.d., Budva and Komercijalna Banka a.d., Banja Luka, which keep their business books and prepare financial statements in accordance with the accounting regulations of the Republic of Montenegro, i.e. Bosnia and Herzegovina.

For the purpose of preparing the consolidated financial statements, the individual audited financial statements of subsidiary banks and the Company are adapted to the presentation of the financial statements based on the following:

- accounting regulations of the Republic of Serbia,
- internal regulation of the Parent Bank - Komercijalna Banka a.d., Beograd and
- relevant IAS and IFRS.

The functional currencies, the Euro from the financial statements of Komercijalna Banka a.d., Budva and BAM from the financial statements of Komercijalna Banka a.d., Banja Luka, are translated into a presentation currency, or the functional currency of the Parent Bank – Dinar (RSD) based on the officially published exchange rates in the Republic of Serbia, for:

- P&LStatement and Statement of Cash Flows using the average exchange rate in the Republic of Serbia and,
- Other financial statements (Balance Sheet, Statement of Changes in Equity and the Statistical Annex) using the closing rate at the balance date.

The individual balance sheets of the Group prior to the day of consolidation, as of December the 31st 2014

RSD thousand

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Cash and funds held with the Central Bank	68.547.389	1.589.584	2.625.222	12
Investments in securities	95.654.325	2.519.783	1.187.375	108.954
Loans and receivables from banks and other financial institutions	34.737.605	1.321.213	287.318	9.748
Loan and receivables from customers	185.377.035	6.366.527	12.085.086	-
Investments in subsidiaries	5.480.888	-	-	-
Non-tangible investments	405.774	26.299	19.089	43
Real-estate, facilities and equipment	6.329.077	208.573	67.778	68
Investment properties	2.581.144	-	130.069	-
Other assets	7.148.287	2.025.299	93.271	740
TOTAL ASSETS	406.261.524	14.057.277	16.495.209	119.565
Deposits and other liabilities to banks and other financial institutions	23.743.018	303.802	2.951.519	-
Deposits and other liabilities to other customers	301.954.911	9.687.203	9.452.094	-
Subordinated liabilities	6.036.680	-	-	-
Provisions	1.640.595	53.120	37.771	583
Other liabilities	3.339.516	91.720	58.750	676
TOTAL LIABLITIES	**336.714.720**	**10.135.845**	**12.500.135**	**1.259**
Capital and reserves	69.546.804	3.921.432	3.995.075	118.306
TOTAL LIABILITIES	406.261.524	14.057.277	16.495.209	119.565

Percentage of the total consolidated positions of the balance sheet is not materially significant and comes to 1.4% of the BS sum of the total cumulative balance sheet.

The following was fully consolidated in the consolidation process:

- amount of share of the Parent Bank in the subsidiary banks' and the Company's capital at an initial rate of stake (RSD 5480.9 million),
- internal receivables and liabilities among the Group members (RSD 750,6 million),
- internal income and expenses among all Group members (net positive effect RSD 3,3 million),
- unrealized internal gains (not realized) and
- unrealized internal losses (not realized).

Loan impairments (allowances) of the Group members and provisions for potential liabilities are recognized in line with the IAS 39 and 37 requirements, pursuant to the adopted internal methodology of the Group.

ASSETS *RSD thousand*

Komercijalna Banka Group members	Joint assets	LEVEL of the consolidated assets	Consolidated assets	% of share
1	2	3	4=2-3	5
Komercijalna Banka a.d., Beograd	406.261.524	-6.093.040	400.168.484	92,91%
Komercijalna Banka a.d., Budva	14.057.277	-117.835	13.939.442	3,24%
Komercijalna Banka a.d., Banja Luka	16.495.209	-10.831	16.484.378	3,83%
KomBank INVEST a.d., Beograd	119.565	-9.760	109.805	0,03%
TOTAL			**430.702.109**	**100%**

PASIVA

Komercijalna Banka Group members	Joint assets	LEVEL of the consolidated assets	Consolidated assets	% of share
1	2	3	4=2-3	5
Komercijalna Banka a.d., Beograd	406.261.524	898.825	407.160.349	94,53%
Komercijalna Banka a.d., Budva	14.057.277	-2.671.415	11.385.862	2,64%
Komercijalna Banka a.d., Banja Luka	16.495.209	-4.318.873	12.176.336	2,83%
KomBank INVEST a.d., Beograd	119.565	-140.003	-20.438	0,00%
TOTAL			**430.702.109**	**100%**

The share of subsidiaries in the Group's total potential is not significant given that it came to 7.1% (2013 7.2%) of consolidated assets of the Group. Less in liabilities: 5.5% (2013 5.4%), given that the consolidation eliminates capital of the members invested by the Parent Bank.

As in previous years, the Parent Bank retained its dominant position in the structure of all positions of the Group with a share of 92.9%.

Individual P&L statements before consolidation covering January the 1st to December 31st 2014.

RSD thousand

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	21.224.379	761.069	814.094	14.541
Interest expenses	7.925.793	217.037	235.202	-
Net interest income	**13.298.586**	**544.032**	**578.892**	**14.541**
Fees and commission income	5.677.040	162.177	193.399	3.686
Fees and commission expenses	959.283	36.329	56.047	702
Net fees and commission income	**4.717.757**	**125.848**	**137.352**	**2.983**
Net gain / loss on sale of securities	57.358	-	27.963	946
Net gains / losses on foreign exchange and foreign currency clause	-205.943	8.799	150	-23
Other operating income	569.191	21.158	9.165	19
Net income / expenses from indirect write offs and provisions	-2.725.389	28.994	-125.063	-
Operating and other expenses	10.953.971	580.639	618.903	17.047
PROFIT BEFORE TAX	**4.757.589**	**148.191**	**9.556**	**1.419**
Income tax	-	14.726	8.280	142
Profit / Loss on deferred taxes	27.988	-2.222	-	-42
PROFIT	**4.785.577**	**131.243**	**1.276**	**1.235**

9. Financial instruments relevant to the assessment of the financial position

At the end of the fiscal 2014, the following financial instruments were of the key importance for the assessment of the financial position of the Komercijalna Banka a.d., Beograd Group:

- <u>On the left side of the balance sheet:</u>
- Loans and receivables from customers;
- Loans and receivables from banks and other financial institutions
- Financial assets available for sale and
- Cash and funds held with the Central Bank

- <u>On the right side of the balance sheet:</u>
- Deposits and other liabilities to other customers;
- Deposits and other liabilities to banks, other financial institutions and Central Bank;
- Subordinated liabilities and
- Equity.

Loans and receivables from customers, banks and other financial institutions at the end of the year amounted to RSD 239,562.6 million and make up 55.6% of total assets of the Group, while at the end of 2013, loans amounted to RSD 231,234.9 million, participating in total assets with 60.2%.

During 2014, loans and advances increased by 8327.8 million, or 3.6%. Bearing in mind that for a longer period loans and advances have made up more than 50% of the total assets, the Group was developing a risk management system in the previous period, with particular emphasis on credit risk. As a result of these efforts, the Group now has a quality loan portfolio, which is provided with the appropriate amount of the allowances and reserves formed from profit.

Financial assets available for sale at the end of 2014 amounted to RSD 98,958.8 million (23.0% of total assets), and in relation to the situation at the end of 2013 (RSD 58,986.7 million, 15.4% of total assets) increased by RSD 39972.1 million or 67.8%. These assets are mainly related to investments in short-term and long-term securities of the Republic of Serbia.

Cash and balances held with Central Bank, risk-free assets from the aspect of credit risk as at 31 December 2014 amounted to RSD 72633.5 million and compared to the beginning of the year decreased by 3.3%, or RSD 2503.0 million. In the structure of this position the dominant amount refers to the funds deposited on drawing account and funds allocated and held with the Central Banks in the form of required reserves.

Given the asset structure, one can conclude that the credit risk sensitive assets are maintained at the optimum level, with a reasonable risk taking policy.

Deposits and other liabilities to other customers (including the assets taken in the form of credit lines) as at 31 December 2014 amounted to RSD 321,094.2 million, participating in the total liabilities with 74.6%. Compared to the beginning of the year, deposits and other liabilities to other customers increased by RSD 38018.9 million or 13.4%.

The Group's deposit potential predominantly consists of the retail FX deposits, whereby there is a large deposit diversification, a number of deposits in smaller amount.

As of December 31, 2014, deposits and other liabilities to banks, other financial institutions and the Central Bank amounted to RSD 26247.8 million and make up 6.1% of total liabilities.

In order to create a basis for a more favourable credit rating of the customers, as well as strengthening the capital base of the Group's Parent Bank, Komercijalna Banka a.d., Beograd, provided a portion of funds in the form of subordinated debt by IFC. On December 31, 2014, subordinated liabilities totalled RSD 6036, 7 million and make up 1.40% of the liabilities.

As of December 31, 2014, the total capital of Komercijalna Banka Group came to RSD 72100, 7 million, and represents 16.7% of the total liabilities. In fiscal year total capital increased by RSD 5059.0 million or 7.5%.

Based on the above, we can conclude that Komercijalna Banka a.d. Beograd Group provided a variety of funding sources and that there is no high concentration of deposits.

10. Risk management

The Group has recognized the risk management process as a key element of business management, given that exposure to risks is arising from all transactions, as an inseparable part of the banking business, which is managed by the identification, measurement, mitigation, monitoring, control and reporting, i.e. the establishment of risk limits, and reporting in accordance with the strategies and policies.

The Group has established a comprehensive and reliable risk management system which includes strategies, policies and procedures, risk management, appropriate organizational structure, effective and efficient management system for all its risks, adequate system of internal controls, appropriate information system and an adequate process of internal capital adequacy assessment process.

Through Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the system of risk management: minimizing adverse effects on the financial result and equity with respect to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, development activities in accordance with business opportunities and markets' development in order to achieve competitive advantages.

Detailed reports and data on risk management are disclosed in the Notes to the Consolidated Financial Statements – Note No. 4.

Credit risk exposure

Credit risk is the possibility of adverse effects on the financial result and equity of the Group due to debtor's failure to perform his obligations to the members of the Group. Credit risk is conditioned by the creditworthiness of the debtor, his orderliness in servicing the debt to the Bank, as well as the quality of collateral.

Acceptable level of credit risk exposure of the Group is in accordance with the defined Risk Management Strategy and depends on the structure of the Group's portfolio, which is the basis that allows limiting the negative effects on the financial result and minimizing the capital requirements for credit risk, settlement and delivery risk and counterparty risk in order to maintain a capital adequacy ratio at an acceptable level. Banks, members of the Group, grant loans to customers (corporate and retail) who are assessed as creditworthy. On the other hand, the Group does not invest in high-risk investments, such as investments in high-return projects involving high-risk, high-risk project investment funds, etc.

Liquidity risk exposure

Liquidity risk represents the possibility of occurrence of adverse events that may affect the financial results and equity of the Group. Liquidity risk arises from the difficulty of the Group to settle its due liabilities in the event of a shortage of liquidity reserves and the inability to cover unexpected outflows and other liabilities.

Banks, members of the Group, abide by the fundamental principles of liquidity in their operation, maintaining a sufficient level of assets to cover liabilities incurred in the short term, or respect the principle of solvency by forming the optimal structure of its own and borrowed funds and the establishment of a sufficient level of liquidity reserves, which do not threaten the achievement of the planned return on capital.

Liquidity risk arises from the inability of the Group to meet its payment obligations. Liquidity risk may occur in the form of the funding sources risk and market liquidity risk. The problem of liquidity in terms of funding sources relates to the structure of liabilities, or obligations, and is expressed through a potentially significant participation of unstable sources, short term sources or their concentration. On the other hand, liquidity risk manifests through the deficit of liquidity reserves and difficulty or impossibility of obtaining liquid assets at reasonable market prices.

Interest rate risk exposure

Interest rate risk is the risk of negative effects on the financial results and equity of the Group based on the position of the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.

Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of the impact on the financial results and economic value of equity, by conducting an adequate policy of maturity matching through the interest rates repricing period and matching of lending and funding by type of interest rate and maturity structure.

Foreign Exchange risk exposure

Banks, members of the Group are exposed to foreign exchange risk, which is manifested through the possibility of adverse effects on the financial result and equity due to changes in inter-currency ratios, changes in the value of the domestic currency against foreign currencies and changes in the value of gold and other precious metals.

In order to minimize exposure to foreign exchange risk the Group diversifies the currency structure of its portfolio and currency structure of liabilities and adjusts the open positions by individual currencies, while respecting the principles of maturity transformation of funds.

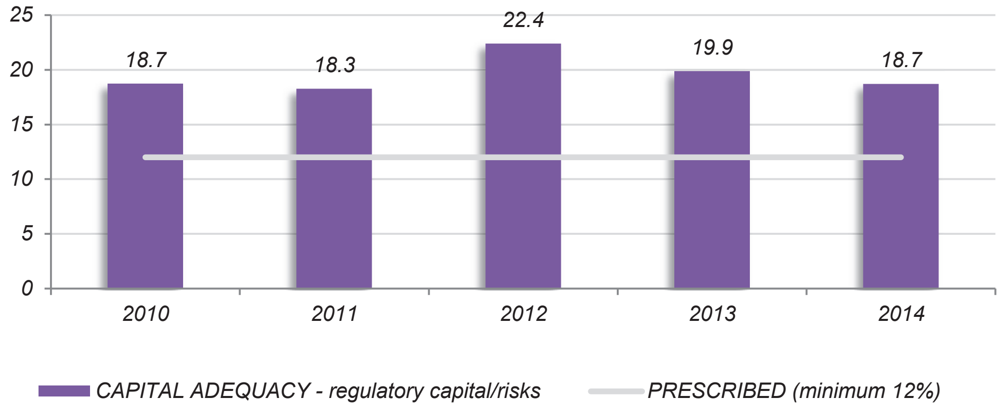
The Group is obliged to adjust the volume of its business with the parameters provided for in the Law on Banks. At December 31, 2014, all ratios were within their prescribed parameters.

Regulatory requirements for the Group

Capital adequacy ratio is the key indicator of the Group's business, the value of which is affected by:

- Level of regulatory capital,
- Total assets weighted by credit risk,
- „Net open FX position“ and
- Exposure to operating risk.

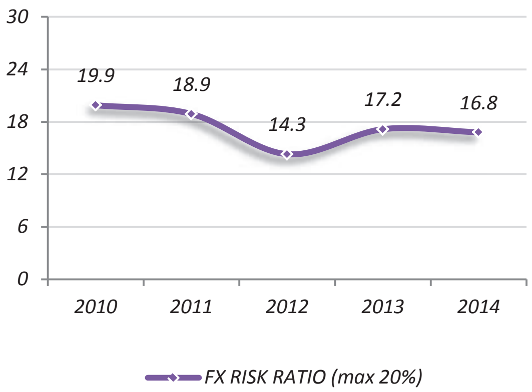
Capital adequacy



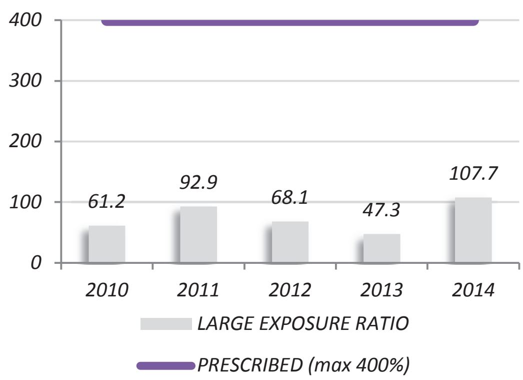
In line with the Law on Banks: „ For the banking group on a consolidated basis the following shall be determined:

- Capital adequacy ratio,
- Large exposure,
- Investment in other legal persons and fixed assets,
- „Open net FX position. “

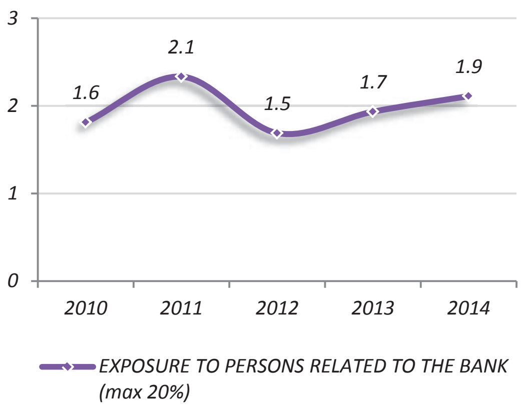
FX risk ratio



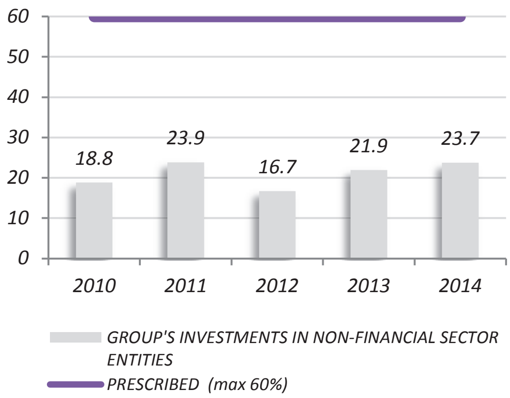
Large exposure ratio



Persons related to the bank



Investments of the Group



11. The rules of corporate governance

The rules of corporate governance are based on the relevant legislation (Law on Banks and the Law on Companies). Members of the Group implement in their operations the Code of Corporate Governance of the Chamber of Commerce of Serbia, which was adopted by the Assembly of the Serbian Chamber of Commerce.

Competences and powers of all bodies of the Group members are based on the appropriate legislation and defined in the internal enactments. The rules of corporate governance are implemented through internal enactments, and there are no discrepancies in their implementation.

Code of corporate governance has established the principles of the corporate practice abided by the holders or corporate governance both in business and conduct. The objective of the Code is the introduction of good business practices and the establishment of high standards of corporate governance, which should ensure the strengthening of confidence of the shareholders, investors, customers and other stakeholders. Good practice of corporate governance basically allows consistency of the control system, protection of interests of the shareholders, timely delivery of all relevant information on the operations and complete transparency through public access to financial reports of companies.

IFC (International Finance Corporation) consultant has performed a detailed analysis of corporate governance in 2014, and said that the corporate governance practices of the Group are among the best observed in the region and provided guidance for further "fine tuning", which will be implemented in the coming period.

Annual Report on Business Operations for the year 2014

Komercijalna Banka Group

C O N T E N T S

Summary – Consolidated Financial Statements of Komercijalna banka A.D., Beograd Group for 2014

The stated financial statements are submitted to the Bank's Board of Directors, pursuant to the Article 73 of the Law on Banks, and in compliance with the Article 27 of the Bank's Articles of Association.

In accordance with the Article 32 of the Law on Accounting „Financial Statements are adopted by the General Meeting of Shareholders or another competent body of the legal entity“

- Komercijalna banka a.d., Beograd Group comprises:
  - Komercijalna banka a.d., Beograd – as the Parent bank
  - Komercijalna banka a.d., Budva – as the Group member
  - Komercijalna banka a.d., Banja Luka – as the Group member
  - Investment Fund Management Company KomBank INVEST a.d., Beograd – as the Group member.
- Consolidation of the financial statements of Komercijalna banka Group was performed in compliance with the Law on Accounting and IFRS 10 – "Consolidated financial statements", and also in line with the Instructions for Preparation of Consolidated Financial Statements.
- Subsidiaries: Komercijalna banka a.d., Budva and Komercijalna banka a.d., Banja Luka maintain books of accounts and prepare financial statements in accordance with the accounting regulations of the Republic of Montenegro, and/or of Republic of Srpska, while KomBank INVEST a.d., Beograd prepares them in compliance with the regulations applicable in the Republic of Serbia, which govern this area of operations. For the purpose of preparing consolidated financial statements the stand-alone financial statements of subsidiaries and of KomBank INVEST are adjusted to financial statements presentation based on accounting regulations of the Republic of Serbia.
- In order to prepare consolidated financial statements, Komercijalna banka a.d., Beograd, as the Parent bank, made a reclassification, adjustment and merging of the financial statements of the Group members with its own individual statements.
- In the process of preparation of consolidated financial statements, full consolidation method has been applied. Consolidation has been implemented by connecting all the same type of assets, liabilities, share capital, income and expenses, with exclusion of all values contained in individual accounts, which originate from the internal relations of the Group members.
- In conducted consolidation procedure the following is entirely eliminated:
  - Amount of stake held by the Parent bank in the equity of the subsidiaries,
  - Internal receivables and liabilities among all Group members,
  - Internal income and expenses among all Group members,
  - Incurred unrealized internal gains and
  - Incurred unrealized internal losses.
- Balance sheet assets of the Group at the end of 2014 amount to RSD 430.702 million and is increased by 12,1% relative to the previous year.
- Komercijalna banka Group realized in 2014 a profit before tax in the amount of RSD 4.793 million, which compared to preceding year represents an increase of 8,9%.

Since the consolidation of financial statements of Komercijalna banka Group was conducted on the basis of stand-alone financial statements, report of the external auditor on performed audit of business operations of the Parent bank and the Banking group members for the year 2014, in accordance with the Law on Accounting and IFRS 10 – " Consolidated financial statements ", Law on the Capital Market and the regulations of the National Bank of Serbia, it is therefore proposed to the Board of Directors to adopt the Draft Consolidated Financial Statements of Komercijalna banka a.d., Beograd Group for the year 2014 and to forward them, in line with the Article 14 of the Bank's Articles of Association to the General Meeting of Bank's Shareholders for adoption.

EXECUTIVE BOARD

Consolidated financial statements of the banking group are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent bank.

Functional currencies, EUR from financial statements of Komercijalna banka a.d., Budva and BAM from financial statements of Komercijalna banka a.d., Banja Luka, are translated into the reporting currency of the Parent bank – dinar (RSD) on the basis of official exchange rates published in the Republic of Serbia.

Consolidated Income Statement and Consolidated Cash Flow Statement for the reporting period have been reclassified by applying the average official exchange rate in the Republic of Serbia for the year 2014 of RSD 117,2478 for one EUR and RSD 59,9478 for one BAM, while other consolidated financial statements (balance sheet, statement of changes in equity and report on other results) by applying the closing exchange rate effective as of the balance sheet date of RSD 120,9583 for one EUR, and/or RSD 61,8450 for one BAM.

Business changes having occurred in foreign currency are translated into dinars (RSD) at middle exchange rate as determined in the interbank foreign exchange market applicable as of the date of business change.

Assets and liabilities stated in foreign currency as of the consolidated balance sheet date are translated into dinars (RSD) at middle exchange rate as determined in the interbank foreign exchange market that was applicable on such date.

GROUP'S KEY PERFORMANCE INDICATORS

ITEM	2014[1]	2013	INDICES 2014/2013	2012	2011	2010
In thousand RSD and percentages						
Profit before tax	4.792.801	4.400.642	108,9	4.572.662	3.952.066	2.791.964
Net interest income	14.436.051	14.128.460	102,2	10.910.317	9.853.368	7.437.483
Net fee income	4.983.940	4.829.281	103,2	4.554.466	4.423.399	3.892.459
PROFITABILITY INDICATORS						
ROA	1,2%	1,2%		1,4%	1,4%	1,5%
ROE (on share capital)	12,0%	11,0%		12,9%	14,0%	13,9%
ROE (on total capital)	6,9%	6,8%		8,2%	9,0%	10,5%
Net interest margin on total assets	3,5%	3,9%		3,5%	3,7%	3,1%
Cost / income ratio	62,7%	63,1%		65,1%	64,4%	76,1%
Operating and other expenses	12.170.559	11.961.385	101,7	11.040.394	10.039.654	9.488.317
Net expenses from loan impairment charges	2.821.458	3.359.720	84,0	1.946.369	1.488.299	1.581.301
Consolidated balance sheet assets	430.702.109	384.296.023	112,1	342.267.358	292.679.098	272.203.483
Loans and receivables	239.562.636	231.234.880	103,6	217.721.333	169.380.487	163.214.267
Deposits and other liabilities	347.341.972	306.302.650	113,4	269.884.506	219.922.916	212.627.373
CAPITAL	72.100.729	67.041.696	107,5	62.073.150	46.044.022	42.735.634
Capital adequacy	18,7%	19,9%		22,4%	18,3%	18,7%
Number of employees	3.178	3.233	98,3	3.254	3.282	3.343
Assets per employee	135.526	118.867	114,0	105.184	89.177	81.425

[1] As of December 31st, 2014 new Chart of accounts for banks has been applied. For reasons of comparability of balance sheet data "translation" was performed of balance sheet formats for 2012 and 2013 to new chart of accounts.

1. Brief Description of business activities and Organizational Structure of the Group

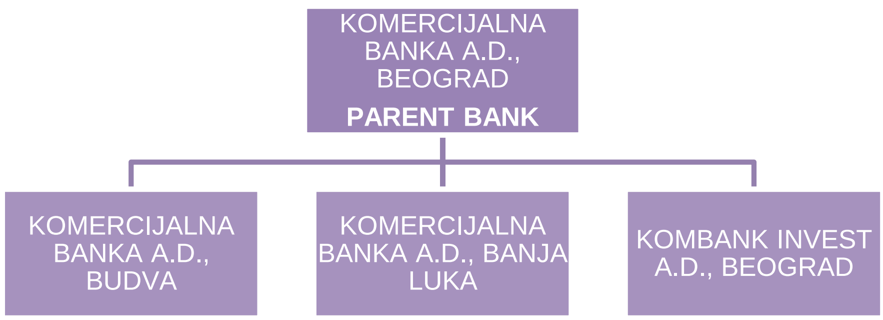
Banking Group within the registered activities performs the following operations:

- Deposit operations (accepting and placing deposits),
- Lending operations (lending and borrowing),
- Foreign exchange , foreign exchange-currency and exchange operations;
- Payment system operations;
- Issuance of payment cards;
- Securities operations (issue of securities, custody bank operations and other);
- Broker-dealer operations;
- Issuance of guarantees, sureties and other forms of guarantees (guarantee operations);
- Purchase, sale and collection of receivables (factoring, forfeiting and other);
- Insurance agency activities, upon prior consent of the National Bank of Serbia;
- Operations for which it is authorized by law;
- Other operations which are essentially similar or related to the operations referred to in Items 1) to 11) of this paragraph, in line with the Bank's Memorandum of Association and the Articles of Association.
- Organizing and managing investment funds.

The Parent Bank has been authorized for performing international payment transactions since 2003, for performing activities of broker-dealer company since 2005, and for performing activities of custody bank since 2006.

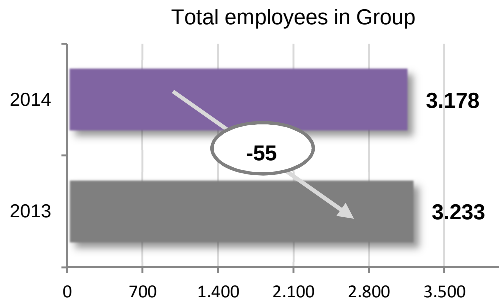
The Banking Group consists of three banks (Parent and two banks – subsidiaries) and one Investment Fund Management Company.

Organizational Chart of Komercijalna Banka a.d., Beograd Group:



Employment in KB Group:

As of December 31st, 2014 the Group had in total 3.178 employees, or 55 less than in the preceding year. Reduction occurred in the Parent bank (60), while Banja Luka (1) and Budva (4) recorded a slight increase in number of employees. The number of employees in KB Invest remained unaltered.



KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA
100% owned by Bank	99,998% owned by Bank

Komercijalna banka a.d., Budva was established in November 2002 as affiliation of Komercijalna banka a.d., Beograd and was registered in the central register of the Commercial Court in Podgorica on March 6th, 2003.

- 124 employees,
- 17 organizational units (F/A)

Komercijalna banka a.d., Banja Luka was established in September 2006 and on September 15th, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka.

- 144 employees,
- 26 organizational units (F/A)

KOMBANK INVEST A.D., BEOGRAD
100% owned by Bank

Investment Fund Management Company (IFMC) **KomBank INVEST a.d., Beograd** is the company registered in the Business Entities Register of the Serbian Business Registers Agency on February 5th, 2008.

The company is established as the closed joint stock company which operates in accordance with the Law on Investment Funds, Rulebook on Investment Funds and Rulebook on Operating Requirements for Investment Fund Management Companies.

At the end of 2014, the Company managed three investment funds, as follows:

1. KomBank IN FOND, open-end investment fund, with increased asset value (share fund)[2]
2. KomBank NOVČANI FOND, open-end investment fund with preserved asset value (money fund)
3. KomBank DEVIZNI FOND, open-end investment fund with preserved asset value (money fund)

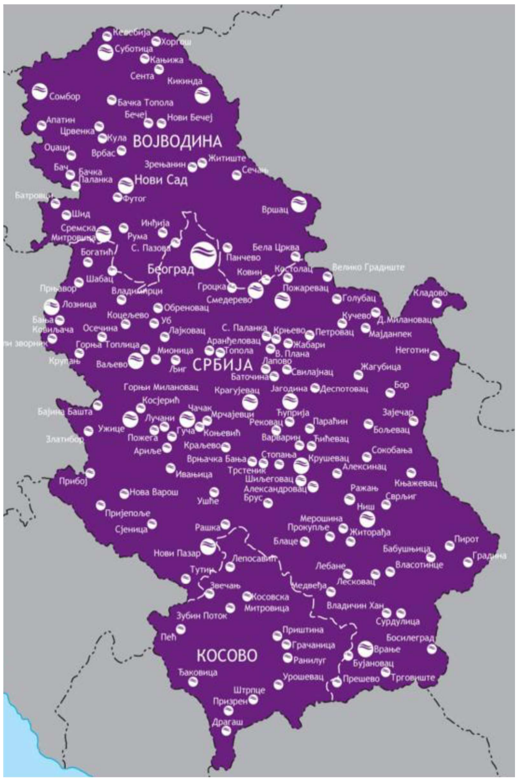
[2] At the year-end decision was made to change the type of fund from share to balanced fund. Decision came into force upon rendering the Decision of Securities Commission in January 2015

Basic data on Head Offices of Group members:

	KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA	IFMC KomBank INVEST A.D., BEOGRAD
ADDRESS	Podkošljun bb	Veselina Masleše 6	Kralja Petra 19
TELEPHONE	00382-33-426-300	00387-51-244-700	011-330-8156

Parent Bank Komercijalna banka a.d., Beograd:

	BRANCH	REGISTERED SEAT
1.	Kruševac	Trg fontana 1
2.	Niš	Episkopska 32
3.	Zrenjanin	Trg Slobode 5
4.	Čačak	Gradsko šetalište 10-14
5.	Kraljevo	Trg S. Ratnika bb
6.	Novi Pazar	Njegoševa 1
7.	Novi Sad	Novosadskog sajma 2
8.	Užice	Petra Ćelovića 4
9.	Vranje	Stefana Prvovenčanog 58
10.	Valjevo	Gradski Trg bb
11.	Subotica	Korzo 10
12.	Šabac	Gospodar Jevremova 2
13.	Kragujevac	Save Kovačevića 1
14.	Smederevo	Karađorđeva 37
15.	Požarevac	Moše Pijade 2
16.	Jagodina	Kneginje Milice 10
17.	Loznica	Gimnazijska 1
18.	S. Mitrovica	Kralja Petra I 5-7
19.	Zaječar	Nikole Pašića 25
20.	Kikinda	Braće Tatić 7
21.	Sombor	Staparski Put 14
22.	Vršac	Trg Svetog Teodora Vršačkog 2
23.	Beograd	Svetogorska 42 - 44
24.	K. Mitrovica	Kneza Miloša 27



- 2.906 employees,
- 218 sub-branches which are organizationally related to 24 branches at the regional level

STREET NAME	Svetog Save 14	Svetogorska 42-44	Makedonska 29
TELEPHONE	381 11- 30-80-100	381-11-32-40-911	381-11-33-39-001
TELEX	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU
FAX	3442-372	32-36-160	33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
INTERNET E - mail	*posta@ kombank.com*	*posta@ kombank.com*	*posta@ kombank.com*

2. Financial Position and Performance Indicators of the Group

2.1. Macroeconomic Environment

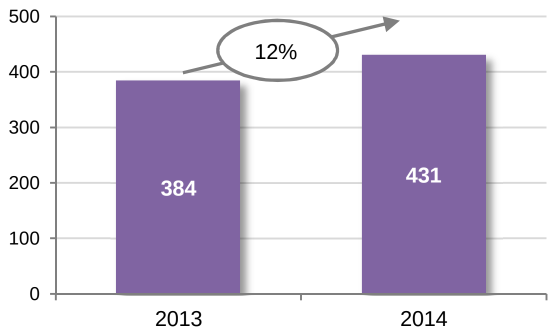
Macroeconomic operating conditions of the Group members according to available data of the relevant institutions:

Macroeconomic indicators	SERBIA	REPUBLIC OF SRPSKA	MONTENEGRO
Gross Domestic Product	33,01 EUR bn	8,61 BAM bn	3,39 EUR bn
GDP trends	Decline 1,8%	Decline 1,70%	Growth 2,0 %
Consumer Price Index	1,70%	-1,20%	-0,70%
Banking sector assets	Growth 3,9%	Growth 3,0 %	Growth 5,9%
Functional currency	RSD	BAM	EUR
Industrial production	Decline 6,5%	Growth 0,6 %	Decline 7,5 %
Foreign direct investments	1,24 EUR bn	0,2 BAM bn	0,4 EUR bn
NPL of banking sector	22,50%	16,79%	15,87%
Unemployment rate	17,60%	25,70%	14,95%

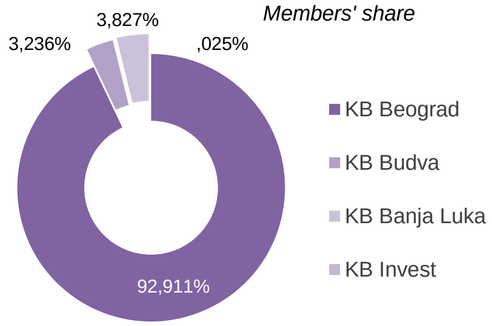
2.2. Operations of Komercijalna Banka a.d., Beograd Group

ITEM	2014	2013	2012	2011	2010
In RSD thousand					
GROUP'S BALANCESHEET ASSETS	**430.702.109**	384.296.023	342.267.358	292.679.098	272.203.483
Komercijalna banka a.d., Beograd	**400.168.484**	356.638.947	317.898.559	270.003.848	250.379.734
Komercijalna banka a.d., Budva	**13.939.441**	12.197.246	10.422.000	9.456.653	8.987.204
Komercijalna banka a.d., Banja Luka	**16.484.378**	15.354.014	13.844.837	13.119.415	12.720.668
KomBank INVEST a.d., Beograd	**109.805**	105.816	101.962	99.182	115.877

Balance sheet assets of the Group (in RSD bn)



Members' share

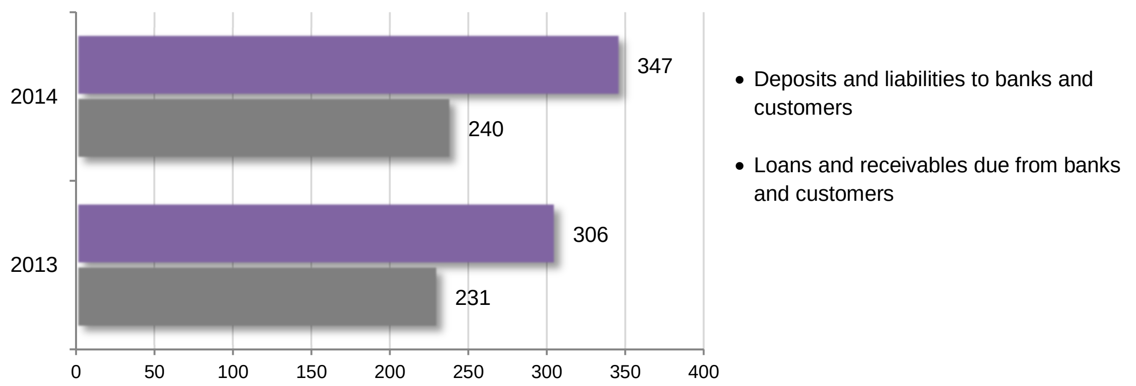


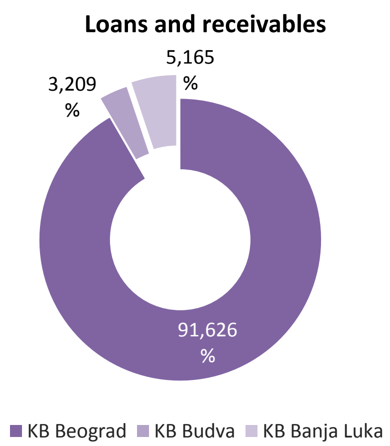
Balance sheet assets of the Group recorded a growth of 12,1% in the previous year. Share of the Parent bank in total assets of the Group increased when compared to the preceding year, as did the share of KB Budva, whereas the share of KB Banja Luka decreased.

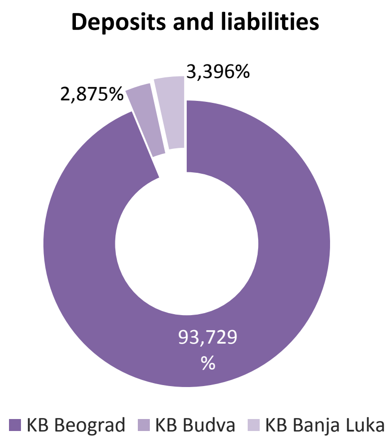
Overview of loans & advances and liabilities of banks and customers as of December 31st, 2014 by Group members

ITEM	2014	2013	2012	2011	2010
In RSD thousand					
LOANS AND RECEIVABLES DUE FROM BANKS AND CUSTOMERS	**239.562.636**	231.234.880	217.721.333	169.380.487	163.214.267
Growth percentage	**3,6%**				
Komercijalna banka a.d., Beograd	**219.502.491**	212.141.510	199.465.741	155.719.207	150.566.311
Komercijalna banka a.d., Budva	**7.687.740**	7.630.520	7.300.499	5.615.791	5.179.892
Komercijalna banka a.d., Banja Luka	**12.372.405**	11.462.850	10.955.093	8.045.489	7.468.064
KomBank INVEST a.d., Beograd	**-**	-	-	-	-
DEPOSITS AND LIABILITIES TO BANKS AND CUSTOMERS	**347.341.972**	306.302.650	269.884.506	219.922.916	212.627.373
Growth percentage	**13,4%**				
Komercijalna banka a.d., Beograd	**325.559.503**	286.908.736	252.888.160	205.917.714	199.072.251
Komercijalna banka a.d., Budva	**9.987.090**	8.134.122	6.963.203	4.932.913	4.768.923
Komercijalna banka a.d., Banja Luka	**11.795.379**	11.259.792	10.033.143	9.072.289	8.786.199
KomBank INVEST a.d., Beograd	**-**	-	-	-	-

Loans and receivables, deposits and other liabilities (in RSD bn)







2.2.1. Consolidated Balance Sheet

Consolidated Assets of the Group as of December 31st, 2014

In RSD thousand

No.	ITEM	December 31st, 2014	December 31st, 2013	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31.12.2014
	ASSETS				
1.	Cash and funds held with the Central Bank	72.633.528	75.136.496	96,7	16,9%
2.	Financial assets at fair value through income statement held for trading	121.634	115.319	105,5	0,0%
3.	Financial assets available for sale	98.958.788	58.986.673	167,8	23,0%
4.	Financial assets held to maturity	390.015	426.901	91,4	0,1%
5.	Loans and receivables due from banks and other financial organizations	35.733.988	35.680.426	100,2	8,3%
6.	Loans and receivables due from customers	203.828.648	195.554.454	104,2	47,3%
7.	Intangible investments	451.205	589.010	76,6	0,1%
8.	Real-estate, buildings and equipment	6.605.496	6.872.601	96,1	1,5%
9.	Investment property	2.711.213	1.934.318	140,2	0,6%
10.	Current tax assets	79.572	725.010	11,0	0,0%
11.	Deferred tax assets	5	47	10,6	0,0%
12.	Non-current assets held for sale and funds from discontinued operations	137.802	75.968	181,4	0,0%
13.	Other assets	9.050.215	8.198.800	110,4	2,1%
	TOTAL ASSETS (from 1 to 13)	**430.702.109**	**384.296.023**	**112,1**	**100,0%**

Balance sheet assets of the Group in 2014 increased in comparison to preceding year by RSD 46.406,1 million or 12,1%. Loans to customers are increased by RSD 8.274,2 million, and/or 4,2%. As of December 31st, 2014 total loans and advances to customers equaled 47,3% of total balance sheet assets.

Significant increase in the reporting period was realized on the position financial assets available for sale in the amount of RSD 39.972,1 million or 67,8%. Growth in loans and advances has been realized through investment in government securities.

The highest nominal reduction is recorded at the position cash and funds held with the Central Bank in the amount of RSD 2.503,0 million, however in percentage that represents a change of only 3,3%.

Consolidated liabilities of the Group as of December 31st, 2014

In RSD thousand

No.	ITEM	December 31st, 2014	December 31st, 2013	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31.12.2014
	LIABILITIES				
1.	Deposits and other liabilities to banks, other financial organizations and Central Bank	26.247.764	23.227.373	113,0	6,1%
2.	Deposits and other liabilities to other customers	321.094.208	283.075.277	113,4	74,6%
3.	Subordinated liabilities	6.036.680	5.711.409	105,7	1,4%
4.	Provisions	1.732.069	835.311	207,4	0,4%
5.	Current tax liabilities	14.726	17.765	82,9	0,0%
6.	Deferred tax liabilities	160.991	13.131	1.226,0	0,0%
7.	Other liabilities	3.314.942	4.374.061	75,8	0,8%
8.	**TOTAL LIABILITIES (from 1 to 8)**	**358.601.380**	**317.254.327**	**113,0**	**83,3%**
	CAPITAL				
12.	Share capital	40.034.550	40.034.550	100,0	9,3%
13.	Profit	6.925.972	6.868.966	100,8	1,6%
14.	Reserves	25.140.140	20.138.117	124,8	5,8%
15.	Non-controlling interest	67	63	106,3	0,0%
16.	**TOTAL CAPITAL (from 12 to 15)**	**72.100.729**	**67.041.696**	107,5	16,7%
17.	**TOTAL LIABILITIES**	**430.702.109**	**384.296.023**	**112,1**	**100,0%**

Total liabilities of the Group at the end of 2014 amounted to RSD 358.601,4 million and account for 83,3% of total liabilities. Total liabilities increased relative to previous year by RSD 41.347,1 million (13,0%). The increase in liabilities was mainly affected by the growth of deposits and other liabilities of the customers in the amount of RSD 38.018,9 million (13,4%).

Deposits and other liabilities to banks and other financial organizations grew by RSD 3.020,4 million or 13,0% annually.

Total capital of RSD 72.100,7 million accounts for 16,7% in total liabilities. Total capital has been increased by 7,6% or RSD 5.059,0 million compared to the previous year. Increase of capital is a result of growth of reserves in the amount of RSD 5.002,0 million.

Proceeds from credit lines are intended primarily for approval to end users – retail customers for improvement of energy efficiency in buildings and home improvement and also for loans to small and medium enterprises for financing projects for the use of renewable energy sources.

Consolidated Balance Sheet as of December 31st, 2014 – members of the Banking Group

In RSD thousand

	ITEM	Belgrade	Budva	Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Item /ASSETS					
1	Cash and funds held with the Central Bank	68.547.389	1.471.748	2.614.390	-	72.633.528
2	Investments in securities	95.654.325	2.519.783	1.187.375	108.954	99.470.437
3	Loans and receivables due from banks and other financial organizations	34.125.456	1.321.213	287.319	-	35.733.988
4	Loans and receivables due from customers	185.377.035	6.366.527	12.085.086	-	203.828.648
5	Intangible investments	405.774	26.299	19.089	43	451.205
6	Real-estate, buildings and equipment	6.329.077	208573	67.778	68	6.605.496
7	Investment property	2.581.144	-	130.069	-	2.711.213
8	Other assets	7.148.284	2.025.298	93.272	740	9.267.594
9	**TOTAL ASSETS (1 to 8)**	**400.168.484**	**13.939.442**	**16.484.378**	**109.805**	**430.702.109**
	Item / LIABILITIES					
10	Deposits and other liabilities to banks and other financial organizations	23.604.592	299.887	2.343.285	-	26.247.764
11	Deposits and other liabilities to other customers	301.954.911	9.687.203	9.452.094	-	321.094.208
12	Subordinated liabilities	6.036.680	-	-	-	6.036.680
13	Provisions	1.640.595	53.120	37.771	583	1.732.069
14	Other liabilities	3.339.516	91.721	58.749	673	3.490.659
15	**TOTAL LIABILITIES (10 to 14)**	**336.576.294**	**10.131.931**	**11.891.899**	**1.256**	**358.601.380**
16	Capital and reserves	70.584.055	1.253.931	284.437	-21.694	72.100.729
17	**TOTAL LIABILITIES (15+16)**	**407.160.349**	**11.385.862**	**12.176.336**	**-20.438**	**430.702.109**

I	Assets by segments	**400.168.484**	**13.939.442**	**16.484.378**	**109.805**	**430.702.109**
-	***Structure of adjusted items***					
-	Consolidated cash	-3.914	-117.835	-10.831	-12	-132.592
-	Consolidated deposits to customers	-	-	-	-9.745	-9.745
-	Consolidated loans to customers	-604.792	-	-	-	-604.792
-	Consolidated receivables for interest	-3.443	-	-	-3	-3.446
-	Consolidated accrued interest and other	-3	-	-	-	-3
-	Consolidated stakes	-5.480.888	-	-	-	-5.480.888
II	**Assets by segments**	**406.261.524**	**14.057.277**	**16.495.209**	**119.565**	**436.933.575**

I	**Liabilities by segments**	**407.160.349**	**11.385.862**	**12.176.336**	**-20.438**	**430.702.109**
-	***Structure of adjusted items***					
-	Consolidated deposits	-138.423	-3.914	-	-	-142.337
-	Consolidated borrowings	-	-	-604.792	-	-604.792
-	Consolidated liabilities for interest and other	-3	-	-3.443	-3	-3.449
-	Consolidated capital	1.681.794	-3.312.044	-3.710.638	-140.000	-5.480.888
-	Intragroup dividends	-644.543	644.543	-	-	0
II	**Liabilities by segments**	**406.261.524**	**14.057.277**	**16.495.209**	**119.565**	**436.933.575**

II	Balance sheet total in original currency	406.261.524 th/din	116.216 th/EUR	266.719 th/KM	119.565 th/din

2.2.2. Consolidated Income Statement

The consolidation procedure requires that from stand-alone income statements all items should be eliminated that originate from interrelated business transactions: interests, fees, commissions and other income/expenses.

In 2014 Komercijalna banka a.d. Group realized a profit after tax in the amount of RSD 4.795,4 million, which represents year-on-year increase by 7,5%.

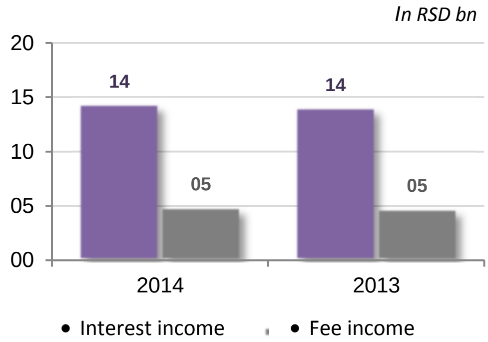
Consolidated Income Statement for the Period from January 01st – December 31st, 2014

In RSD thousand

No.	ITEM	December 31st, 2014	December 31st, 2013	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	22.791.487	23.646.698	96,4
1.2.	Interest expenses	8.355.436	9.518.238	87,8
1.	**Net interest income**	**14.436.051**	**14.128.460**	102,2
2.1.	Fee and commission income	6.030.531	5.827.288	103,5
2.2.	Fee and commission expenses	1.046.591	998.007	104,9
2.	**Net fee and commission income**	**4.983.940**	**4.829.281**	103,2
3.	Net gain on financial assets held for trading u	7.022	22.826	30,8
4.	Net gain on financial assets available for sale	79.245	1.738	4.559,6
5.	Net losses on foreign exchange transactions and effects of contracted currency clause	200.284	35.592	562,7
6.	Other operating income	478.844	775.034	61,8
7.	Net losses on impairment of financial assets and off-balance sheet credit risk items	2.821.458	3.359.720	84,0
8.	**TOTAL NET OPERATING INCOME**	**16.963.360**	**16.362.027**	103,7
9.	Salaries, fringe benefits and other personal expenses	4.745.269	4.784.895	99,2
10.	Depreciation costs	932.851	878.973	106,1
11.	Other expenses	6.492.439	6.297.517	103,1
12.	**PROFIT BEFORE TAX (FROM 1 TO 11)**	**4.792.801**	**4.400.642**	108,9
13.	Profit tax	23.148	24.679	93,8
14.	Profit from deferred tax	47.547	89.038	53,4
15.	Loss from deferred tax	21.823	3.063	712,5
16.	**PROFIT AFTER TAX (FROM 12 TO 15)**	**4.795.377**	**4.461.938**	107,5
17.	Net gain/loss related to minority stakeholders	-	-	-
18.	**Net profit related to parent entity**	**4.795.377**	**4.461.938**	107,5
19.	Basic earnings per share	253	468	54,1
20.	Diluted earnings per share	253	242	104,6

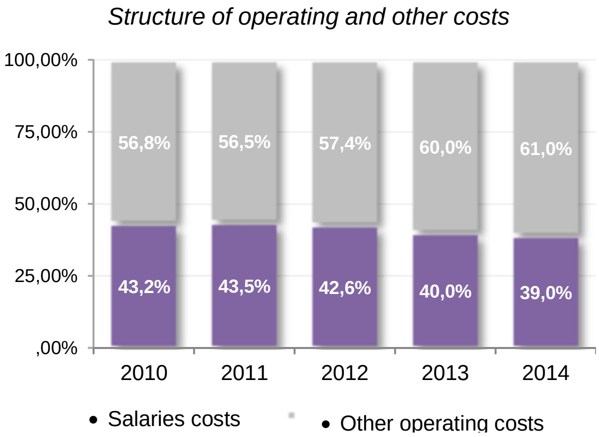
In conditions prevailed by reduced demand for loans and by trends of reduction in interest rates, the Group's interest income recorded a decline compared to the previous year. However, given the fact that in the same period the interest expenses were decreased in a larger amount, the net effect on annual basis is positive, thus net interest income records a growth of RSD 308 million or 2,2%.

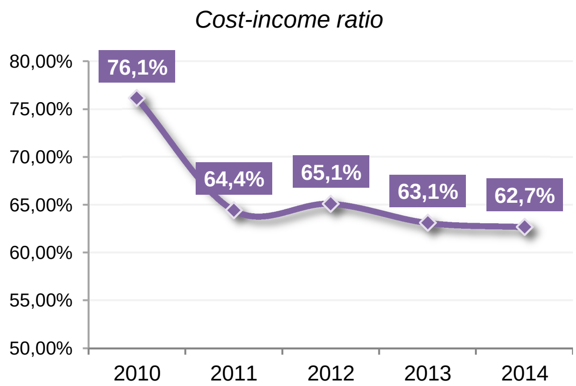
Decrease in interest income is partially a result of conducted IRC (Interest Revenue corrections) method[3] only for the year 2014.



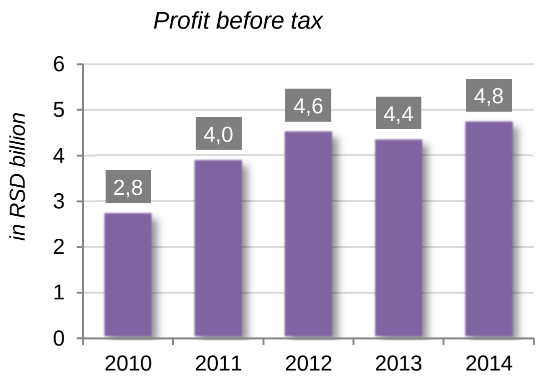
Net fee income also records an increase in comparison to the previous year in the amount of RSD 155 million (3,2%), due to increase in fee and commission income of RSD 203 million (3,5%), and somewhat lower growth of fee expenses in the amount of RSD 49 million (4,9%).

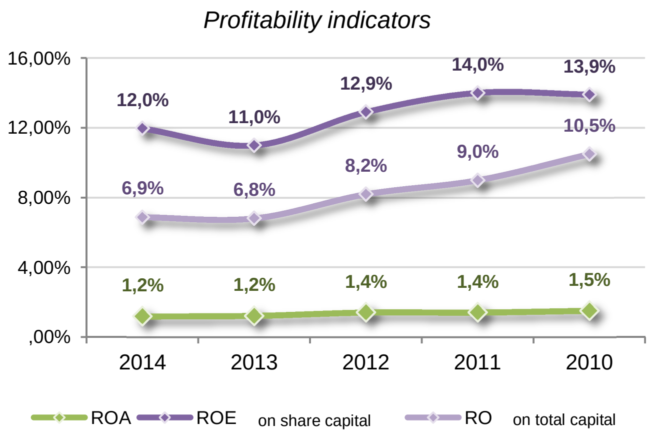
At the Group level in the course of 2014 the policy of active operating costs management continued in terms of rationalization of operating costs. The key factor of profitability in 2014 was the introduction of extraordinary deposit insurance premium, which burdened the result or the operating costs with the additional RSD 440 million.





Operating profit increased by RSD 392 million (8,9%) compared to the previous business year. Performance indicators also show the enhancement in comparison to the previous year.





[3] Netting of costs of allowance for impairment for receivables for interest of the current period with the interest income (IAS 39)

Consolidated P&L statement by Group members January the 1st through December 31st 2014

RSD thousand

	POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL OF THE GROUP
1	2	3	4	5	6	7
1	Interest income	21.201.809	761.069	814.094	14.515	22.791.487
2	Interest expenses	7.925.768	204.481	225.187	-	8.355.436
3	**Net interest income/expenses (1+2)**	**13.276.041**	**556.588**	**588.907**	**14.515**	**14.436.051**
4	Fee income	5.673.838	160.860	192.147	3.686	6.030.531
5	Fee expenses	956.714	34.207	55.023	647	1.046.591
6	**Net fee income/expenses (4+5)**	**4.717.124**	**126.653**	**137.124**	**3.039**	**4.983.940**
7	**Other operating income**	**505.860**	**21.158**	**37.128**	**965**	**565.111**
8	**Net income/expenses from indirect loan write-offs**	**-2.725.389**	**28.994**	**-125.063**	**-**	**-2.821.458**
9	Costs of gross salaries	4.211.489	251.793	271.413	10.574	4.745.269
10	Other operating costs	6.742.482	328.846	347.489	6.473	7.425.290
11	**OPEX (9+10)**	**10.953.971**	**580.639**	**618.902**	**17.047**	**12.170.559**
12	**Net ex.rate differentials and FX clause effect**	**-206.145**	**5.958**	**-74**	**-23**	**-200.284**
I	**RESULT BY SEGMENTS (3+6+7+8-11+12)**	**4.613.520**	**158.712**	**19.120**	**1.449**	**4.792.801**
	Structure of adjusted positions					
-	Consolidated net interest	-22.545	12.555	10.015	-25	0
-	Consolidated net fees	-633	805	-228	56	0
-	Dividend paid to Parent Bank	-120.689	-	-	-	-120.689
-	Ex.rate by mutual relations	-202	-2.840	-224	-	-3.266
II	**Result by segments**	**4.757.589**	**148.191**	**9.557**	**1.419**	**4.916.756**
III	**Profit before tax in original currency (000)**	**4.757.589 K/Din**	**1.264 K/EUR**	**159 K/BAM**	**1.419 K/Din**	

3. Investments in order to protect the environment

The adoption of policies and procedures on environmental and social protection at the Bank Group, the Group has defined standards for identifying and managing environmental and social protection in the process of approving and monitoring loans. Internal regulations defined the procedure for addressing and responding to complaints from direct or indirect impact of business activities on the environment and society.

By contracting credit lines to finance investments to increase energy efficiency and development of renewable energy, loans were approved that provide energy from green sources, which reduce the emission of carbon dioxide.

Review of tied credit lines:

EFSE	EUR 15,000,000 (lending to borrowers – retail customers in order to improve energy efficiency of residential buildings)
EBRD	EUR 10,000,000 (financing of energy efficiency projects and projects aimed at the use of renewable energy sources for the private sector – small and medium-sized companies and local government)

Through categorization of loans depending on the level of risk to the environment and society, the Group estimates to what percentage the activities that may have harmful consequences for the environment are financed. Also, the Group continuously monitors the extraordinary events of its customers, which may have a negative impact on the environment, health or safety or the community as a whole, and regularly informs management bodies and the shareholders of the Bank thereof.

In order to protect the environment and minimize the possibilities for the occurrence of events that may have a materially adverse effect on the environment, health or safety or the community as a whole, the Bank does not finance customers whose main activity is associated with the production of, or trade in arms and ammunition, alcoholic beverages, radioactive materials and other technologies that can have a negative impact on the environment.

Humanitarian and other actions - socially responsible behaviour

In the previous year, the Parent Bank donated significant sums for the purpose of eliminating the consequences of floods. The most important humanitarian campaign that the Parent Bank helps is "Together for babies" in collaboration with the B92 Fund, owing to which the medical equipment for four maternity hospitals was purchased last year.

ZAJEDNO ZA BEBE

We continued to sponsor Kombank Arena, as the most prestigious sports and concert facility in the country. 17 concerts and 12 sporting events were held there.

The Bank has provided support to our athletes who won medals at European and international level - the basketball team, Taekwondo club Galeb – Milica Mandić, Athletic Federation of Serbia - Ivana Španović and Mihailo Dudaš.

The Bank has helped the growing number of humanitarian, cultural, artistic and sports projects and actions, and in our gallery space KOMBANK ART HOL we held 17 highly visited exhibitions.

All marketing activities are coordinated with bank subsidiaries in Montenegro and the Republic of Srpska.

4. Significant events after the end of the financial year

One General Meeting of Parent Bank's Shareholders was held in the period from December the 31st until February 28th 2015.

- Regular session of the General Meeting of Parent Bank's Shareholders was held on January 26, 2015.

The following decision was passed at the session: on adoption of the Strategy and Business Plan of the Bank covering 2015-2017.

Other important events after the end of the financial year are disclosed in the Notes to the Consolidated Financial Statements – Note No. 41.

5. Planned future development

The business environment in the coming period will be marked by low growth in traditional banking (credit transactions) with relatively high levels of NPLs. The pressure on net interest income will continue to grow, due to low inflation rates that dictate the policy of the National Bank of Serbia to be of a restrictive character. High uncertainty lies in the effects of structural reforms of the public finances, which put extra pressure on aggregate demand. The operating costs of the banking industry remain at a high level, so we can expect these to be reviewed in the coming period.

The most significant changes in regulation and supervision are related to the implementation of Basel III standards, in part that refers to the regulatory capital, which will influence the capital adequacy ratio. The second change relates to the required liquidity. These changes will impact the further strengthening of capital and improve risk management processes, but also the increase in operating costs. The Group is in the phase of evaluation of the effects of the regulatory measures.

Conditioned by difficult macroeconomic conditions, the Group continues to operate with a conservative attitude towards risk. The focus remains on achieving the Group's long-term competitiveness. Geographically we will strive to allocate the most profitable funds depending on the situation on the markets.

The Group is also facing the beginning of privatization process.

Business policies were not changed in the past year, neither at Group level nor at the level of individual banks, members of the Group.

The Group passes strategy and business plan at the level of its members, depending on the local environment.

Business strategies are adopted at the level of members of the Group for a period of three years. The Strategy defines the mission, strategic goals and operating principles of each member of the Group with a focus on stable and sustainable business, which will be implemented through:

- Maintaining of interest margin;
- Raising the efficiency and
- Maintaining the portfolio quality against growth.

Mission and long-term commitments of the Group in the coming period remain:

- Universal Bank with equal focus on the corporate and retail segments;
- Orientation to the local markets

We can define the strategic objectives as:

- Managing all risks inherent to the Group's business;
- Sustainable profitability, thus creating the conditions for its growth in the post-crisis period.

The principles governing when setting objectives are as follows:

- Stability and long-term sustainability and value for shareholders;
- Prudence;
- Conservative approach.

Planned operating performances by members in the coming three years:

GROUP MEMBERS	BEOGRAD			BANJA LUKA			BUDVA		
Plan	2015	2016	2017	2015	2016	2017	2015	2016	2017
Asset growth	*3,6%*	*5,2%*	*5,5%*	*5,5%*	*4,3%*	*3,4%*	*2,2%*	*3,9%*	*3,9%*
ROE on share capital	*11,9%*	*13,7%*	*15,4%*	*3,3%*	*4,1%*	*4,6%*	*6,3%*	*7,3%*	*8,6%*
ROE on total capital	*6,8%*	*7,5%*	*8,1%*	*3,0%*	*3,6%*	*4,0%*	*5,1%*	*5,7%*	*6,3%*
ROA	*1,2%*	*1,3%*	*1,4%*	*0,7%*	*0,9%*	*0,9%*	*1,5%*	*1,7%*	*1,9%*
CIR	*58,8%*	*55,5%*	*54,7%*	*74,6%*	*70,0%*	*66,3%*	*67,5%*	*63,8%*	*61,0%*
Interest margin on total assets	*3,4%*	*3,5%*	*3,6%*	*4,1%*	*4,2%*	*4,3%*	*4,7%*	*4,9%*	*5,0%*

6. Research and development activities

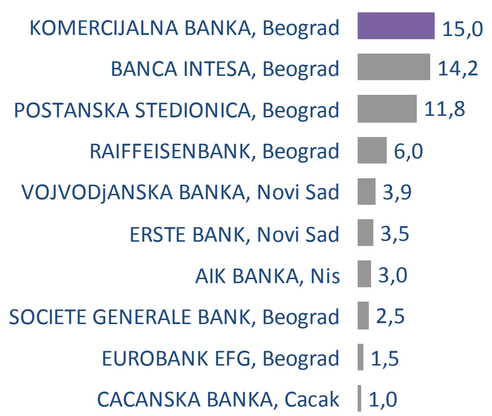
Although the contribution of services in the GDP is significant, in terms of research and development the innovative process is significantly in favour of the product. When it comes to services, research and development activities relate to market research, brainstorming, a system of trial and error and innovative teams.

The focus of research and development activities is directed towards internet technologies and customer satisfaction, and the Group achieved significant results in this area. However, this is the domain of the greatest threat, since the use of the Internet provides the way in the market of companies that are not traditionally engaged in the banking business, and in this sense represent the greatest potential competition.

Banking Group continually monitors the activity in the market banking products, using the available personnel and hiring the specialized agencies for public opinion research.

Market research: *IPSOS Strategic Marketing, Banking omnibus, November 2014*

Agencies provide information concerning customer satisfaction, and according to the analysis they conducted, the Group has a leading position by brand recognition and quality of service.



The results of the research assist in making business decisions, particularly important in respect of the development of new and improvement and modification of the existing products and services.

In the process of continuous monitoring of market signals and needs of users and potential customers, business sectors of the Bank offered the customers some new and / or improved types of retail and micro-customer loans in the previous period; it also developed a whole range of services in the field of electronic banking, debit and credit cards.

The research and development results have been implemented in the Strategy and Business Plan of the Bank.

7. Purchase of own shares

Group members did not acquire its own shares in the previous fiscal year, and do not intend to acquire its own shares in the coming period.

8. Subsidiaries

Subsidiaries are: Komercijalna Banka a.d., Budva and Komercijalna Banka a.d., Banja Luka, which keep their business books and prepare financial statements in accordance with the accounting regulations of the Republic of Montenegro, i.e. Bosnia and Herzegovina.

For the purpose of preparing the consolidated financial statements, the individual audited financial statements of subsidiary banks and the Company are adapted to the presentation of the financial statements based on the following:

- accounting regulations of the Republic of Serbia,
- internal regulation of the Parent Bank - Komercijalna Banka a.d., Beograd and
- relevant IAS and IFRS.

The functional currencies, the Euro from the financial statements of Komercijalna Banka a.d., Budva and BAM from the financial statements of Komercijalna Banka a.d., Banja Luka, are translated into a presentation currency, or the functional currency of the Parent Bank – Dinar (RSD) based on the officially published exchange rates in the Republic of Serbia, for:

- P&LStatement and Statement of Cash Flows using the average exchange rate in the Republic of Serbia and,
- Other financial statements (Balance Sheet, Statement of Changes in Equity and the Statistical Annex) using the closing rate at the balance date.

The individual balance sheets of the Group prior to the day of consolidation, as of December the 31st 2014

RSD thousand

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Cash and funds held with the Central Bank	68.547.389	1.589.584	2.625.222	12
Investments in securities	95.654.325	2.519.783	1.187.375	108.954
Loans and receivables from banks and other financial institutions	34.737.605	1.321.213	287.318	9.748
Loan and receivables from customers	185.377.035	6.366.527	12.085.086	-
Investments in subsidiaries	5.480.888	-	-	-
Non-tangible investments	405.774	26.299	19.089	43
Real-estate, facilities and equipment	6.329.077	208.573	67.778	68
Investment properties	2.581.144	-	130.069	-
Other assets	7.148.287	2.025.299	93.271	740
TOTAL ASSETS	406.261.524	14.057.277	16.495.209	119.565
Deposits and other liabilities to banks and other financial institutions	23.743.018	303.802	2.951.519	-
Deposits and other liabilities to other customers	301.954.911	9.687.203	9.452.094	-
Subordinated liabilities	6.036.680	-	-	-
Provisions	1.640.595	53.120	37.771	583
Other liabilities	3.339.516	91.720	58.750	676
TOTAL LIABLITIES	**336.714.720**	**10.135.845**	**12.500.135**	**1.259**
Capital and reserves	69.546.804	3.921.432	3.995.075	118.306
TOTAL LIABILITIES	406.261.524	14.057.277	16.495.209	119.565

Percentage of the total consolidated positions of the balance sheet is not materially significant and comes to 1.4% of the BS sum of the total cumulative balance sheet.

The following was fully consolidated in the consolidation process:

- amount of share of the Parent Bank in the subsidiary banks' and the Company's capital at an initial rate of stake (RSD 5480.9 million),
- internal receivables and liabilities among the Group members (RSD 750,6 million),
- internal income and expenses among all Group members (net positive effect RSD 3,3 million),
- unrealized internal gains (not realized) and
- unrealized internal losses (not realized).

Loan impairments (allowances) of the Group members and provisions for potential liabilities are recognized in line with the IAS 39 and 37 requirements, pursuant to the adopted internal methodology of the Group.

ASSETS *RSD thousand*

Komercijalna Banka Group members	Joint assets	LEVEL of the consolidated assets	Consolidated assets	% of share
1	2	3	4=2-3	5
Komercijalna Banka a.d., Beograd	406.261.524	-6.093.040	400.168.484	92,91%
Komercijalna Banka a.d., Budva	14.057.277	-117.835	13.939.442	3,24%
Komercijalna Banka a.d., Banja Luka	16.495.209	-10.831	16.484.378	3,83%
KomBank INVEST a.d., Beograd	119.565	-9.760	109.805	0,03%
TOTAL			**430.702.109**	**100%**

PASIVA

Komercijalna Banka Group members	Joint assets	LEVEL of the consolidated assets	Consolidated assets	% of share
1	2	3	4=2-3	5
Komercijalna Banka a.d., Beograd	406.261.524	898.825	407.160.349	94,53%
Komercijalna Banka a.d., Budva	14.057.277	-2.671.415	11.385.862	2,64%
Komercijalna Banka a.d., Banja Luka	16.495.209	-4.318.873	12.176.336	2,83%
KomBank INVEST a.d., Beograd	119.565	-140.003	-20.438	0,00%
TOTAL			**430.702.109**	**100%**

The share of subsidiaries in the Group's total potential is not significant given that it came to 7.1% (2013 7.2%) of consolidated assets of the Group. Less in liabilities: 5.5% (2013 5.4%), given that the consolidation eliminates capital of the members invested by the Parent Bank.

As in previous years, the Parent Bank retained its dominant position in the structure of all positions of the Group with a share of 92.9%.

Individual P&L statements before consolidation covering January the 1st to December 31st 2014.

RSD thousand

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	21.224.379	761.069	814.094	14.541
Interest expenses	7.925.793	217.037	235.202	-
Net interest income	**13.298.586**	**544.032**	**578.892**	**14.541**
Fees and commission income	5.677.040	162.177	193.399	3.686
Fees and commission expenses	959.283	36.329	56.047	702
Net fees and commission income	**4.717.757**	**125.848**	**137.352**	**2.983**
Net gain / loss on sale of securities	57.358	-	27.963	946
Net gains / losses on foreign exchange and foreign currency clause	-205.943	8.799	150	-23
Other operating income	569.191	21.158	9.165	19
Net income / expenses from indirect write offs and provisions	-2.725.389	28.994	-125.063	-
Operating and other expenses	10.953.971	580.639	618.903	17.047
PROFIT BEFORE TAX	**4.757.589**	**148.191**	**9.556**	**1.419**
Income tax	-	14.726	8.280	142
Profit / Loss on deferred taxes	27.988	-2.222	-	-42
PROFIT	**4.785.577**	**131.243**	**1.276**	**1.235**

9. Financial instruments relevant to the assessment of the financial position

At the end of the fiscal 2014, the following financial instruments were of the key importance for the assessment of the financial position of the Komercijalna Banka a.d., Beograd Group:

- On the left side of the balance sheet:
- Loans and receivables from customers;
- Loans and receivables from banks and other financial institutions
- Financial assets available for sale and
- Cash and funds held with the Central Bank

- On the right side of the balance sheet:
- Deposits and other liabilities to other customers;
- Deposits and other liabilities to banks, other financial institutions and Central Bank;
- Subordinated liabilities and
- Equity.

Loans and receivables from customers, banks and other financial institutions at the end of the year amounted to RSD 239,562.6 million and make up 55.6% of total assets of the Group, while at the end of 2013, loans amounted to RSD 231,234.9 million, participating in total assets with 60.2%.

During 2014, loans and advances increased by 8327.8 million, or 3.6%. Bearing in mind that for a longer period loans and advances have made up more than 50% of the total assets, the Group was developing a risk management system in the previous period, with particular emphasis on credit risk. As a result of these efforts, the Group now has a quality loan portfolio, which is provided with the appropriate amount of the allowances and reserves formed from profit.

Financial assets available for sale at the end of 2014 amounted to RSD 98,958.8 million (23.0% of total assets), and in relation to the situation at the end of 2013 (RSD 58,986.7 million, 15.4% of total assets) increased by RSD 39972.1 million or 67.8%. These assets are mainly related to investments in short-term and long-term securities of the Republic of Serbia.

Cash and balances held with Central Bank, risk-free assets from the aspect of credit risk as at 31 December 2014 amounted to RSD 72633.5 million and compared to the beginning of the year decreased by 3.3%, or RSD 2503.0 million. In the structure of this position the dominant amount refers to the funds deposited on drawing account and funds allocated and held with the Central Banks in the form of required reserves.

Given the asset structure, one can conclude that the credit risk sensitive assets are maintained at the optimum level, with a reasonable risk taking policy.

Deposits and other liabilities to other customers (including the assets taken in the form of credit lines) as at 31 December 2014 amounted to RSD 321,094.2 million, participating in the total liabilities with 74.6%. Compared to the beginning of the year, deposits and other liabilities to other customers increased by RSD 38018.9 million or 13.4%.

The Group’s deposit potential predominantly consists of the retail FX deposits, whereby there is a large deposit diversification, a number of deposits in smaller amount.

As of December 31, 2014, deposits and other liabilities to banks, other financial institutions and the Central Bank amounted to RSD 26247.8 million and make up 6.1% of total liabilities.

In order to create a basis for a more favourable credit rating of the customers, as well as strengthening the capital base of the Group's Parent Bank, Komercijalna Banka a.d., Beograd, provided a portion of funds in the form of subordinated debt by IFC. On December 31, 2014, subordinated liabilities totalled RSD 6036, 7 million and make up 1.40% of the liabilities.

As of December 31, 2014, the total capital of Komercijalna Banka Group came to RSD 72100, 7 million, and represents 16.7% of the total liabilities. In fiscal year total capital increased by RSD 5059.0 million or 7.5%.

Based on the above, we can conclude that Komercijalna Banka a.d. Beograd Group provided a variety of funding sources and that there is no high concentration of deposits.

10. Risk management

The Group has recognized the risk management process as a key element of business management, given that exposure to risks is arising from all transactions, as an inseparable part of the banking business, which is managed by the identification, measurement, mitigation, monitoring, control and reporting, i.e. the establishment of risk limits, and reporting in accordance with the strategies and policies.

The Group has established a comprehensive and reliable risk management system which includes strategies, policies and procedures, risk management, appropriate organizational structure, effective and efficient management system for all its risks, adequate system of internal controls, appropriate information system and an adequate process of internal capital adequacy assessment process.

Through Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the system of risk management: minimizing adverse effects on the financial result and equity with respect to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, development activities in accordance with business opportunities and markets' development in order to achieve competitive advantages.

Detailed reports and data on risk management are disclosed in the Notes to the Consolidated Financial Statements – Note No. 4.

Credit risk exposure

Credit risk is the possibility of adverse effects on the financial result and equity of the Group due to debtor's failure to perform his obligations to the members of the Group. Credit risk is conditioned by the creditworthiness of the debtor, his orderliness in servicing the debt to the Bank, as well as the quality of collateral.

Acceptable level of credit risk exposure of the Group is in accordance with the defined Risk Management Strategy and depends on the structure of the Group's portfolio, which is the basis that allows limiting the negative effects on the financial result and minimizing the capital requirements for credit risk, settlement and delivery risk and counterparty risk in order to maintain a capital adequacy ratio at an acceptable level. Banks, members of the Group, grant loans to customers (corporate and retail) who are assessed as creditworthy. On the other hand, the Group does not invest in high-risk investments, such as investments in high-return projects involving high-risk, high-risk project investment funds, etc.

Liquidity risk exposure

Liquidity risk represents the possibility of occurrence of adverse events that may affect the financial results and equity of the Group. Liquidity risk arises from the difficulty of the Group to settle its due liabilities in the event of a shortage of liquidity reserves and the inability to cover unexpected outflows and other liabilities.

Banks, members of the Group, abide by the fundamental principles of liquidity in their operation, maintaining a sufficient level of assets to cover liabilities incurred in the short term, or respect the principle of solvency by forming the optimal structure of its own and borrowed funds and the establishment of a sufficient level of liquidity reserves, which do not threaten the achievement of the planned return on capital.

Liquidity risk arises from the inability of the Group to meet its payment obligations. Liquidity risk may occur in the form of the funding sources risk and market liquidity risk. The problem of liquidity in terms of funding sources relates to the structure of liabilities, or obligations, and is expressed through a potentially significant participation of unstable sources, short term sources or their concentration. On the other hand, liquidity risk manifests through the deficit of liquidity reserves and difficulty or impossibility of obtaining liquid assets at reasonable market prices.

Interest rate risk exposure

Interest rate risk is the risk of negative effects on the financial results and equity of the Group based on the position of the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.

Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of the impact on the financial results and economic value of equity, by conducting an adequate policy of maturity matching through the interest rates repricing period and matching of lending and funding by type of interest rate and maturity structure.

Foreign Exchange risk exposure

Banks, members of the Group are exposed to foreign exchange risk, which is manifested through the possibility of adverse effects on the financial result and equity due to changes in inter-currency ratios, changes in the value of the domestic currency against foreign currencies and changes in the value of gold and other precious metals.

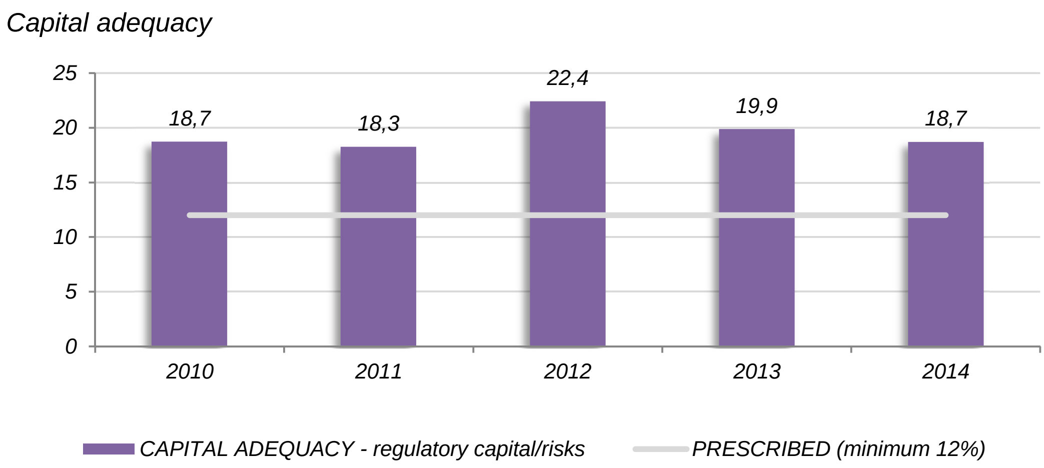
In order to minimize exposure to foreign exchange risk the Group diversifies the currency structure of its portfolio and currency structure of liabilities and adjusts the open positions by individual currencies, while respecting the principles of maturity transformation of funds.

The Group is obliged to adjust the volume of its business with the parameters provided for in the Law on Banks. At December 31, 2014, all ratios were within their prescribed parameters.

Regulatory requirements for the Group

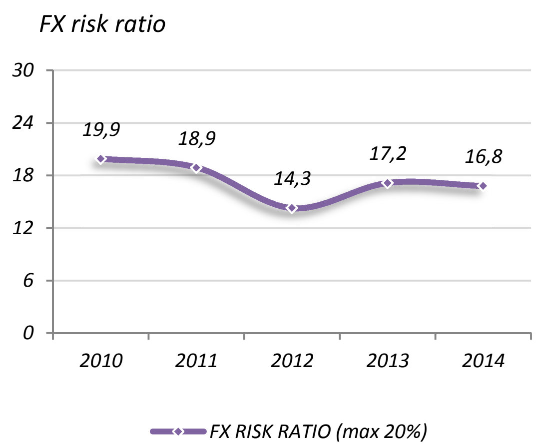
Capital adequacy ratio is the key indicator of the Group's business, the value of which is affected by:

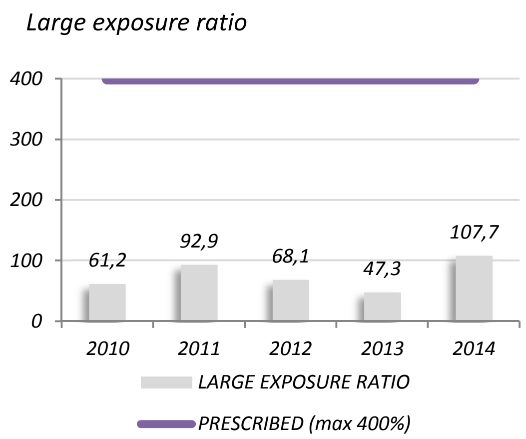
- Level of regulatory capital,
- Total assets weighted by credit risk,
- „Net open FX position“ and
- Exposure to operating risk.

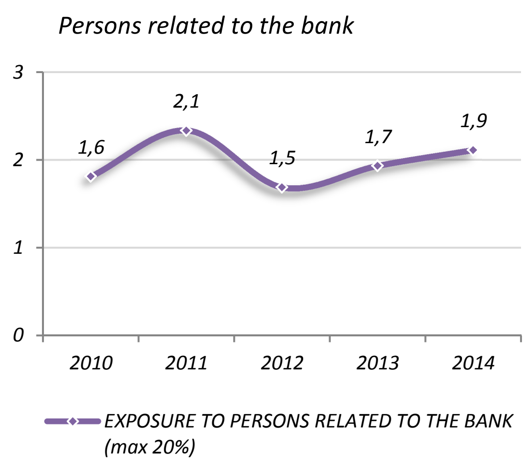


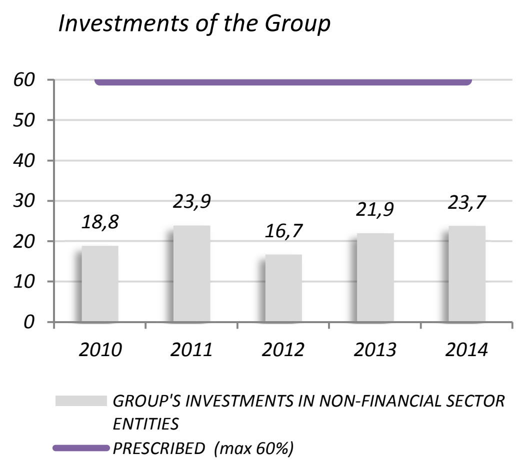
In line with the Law on Banks: „ For the banking group on a consolidated basis the following shall be determined:

- Capital adequacy ratio,
- Large exposure,
- Investment in other legal persons and fixed assets,
- „Open net FX position. “









11. The rules of corporate governance

The rules of corporate governance are based on the relevant legislation (Law on Banks and the Law on Companies). Members of the Group implement in their operations the Code of Corporate Governance of the Chamber of Commerce of Serbia, which was adopted by the Assembly of the Serbian Chamber of Commerce.

Competences and powers of all bodies of the Group members are based on the appropriate legislation and defined in the internal enactments. The rules of corporate governance are implemented through internal enactments, and there are no discrepancies in their implementation.

Code of corporate governance has established the principles of the corporate practice abided by the holders or corporate governance both in business and conduct. The objective of the Code is the introduction of good business practices and the establishment of high standards of corporate governance, which should ensure the strengthening of confidence of the shareholders, investors, customers and other stakeholders. Good practice of corporate governance basically allows consistency of the control system, protection of interests of the shareholders, timely delivery of all relevant information on the operations and complete transparency through public access to financial reports of companies.

IFC (International Finance Corporation) consultant has performed a detailed analysis of corporate governance in 2014, and said that the corporate governance practices of the Group are among the best observed in the region and provided guidance for further "fine tuning", which will be implemented in the coming period.

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011) it is stated the following:

STATEMENT

I hereby state that, according to my best knowledge, the annual consolidated financial statements have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, inclusive of its companies that are included in the consolidated financial statements, based on the adopted audited separate financial statements of the Group members for the year 2014.

KOMERCIJALNA BANKA AD BEOGRAD

Subsidiaries Department Director	**Executive Director for Finance and Accounting**
Gordana Zorić	**Savo Petrović**

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF SHAREHOLDERS

No.13761/1

Belgrade, 20.07.2015

Pursuant to the Article 14 of Komercijalna Banka AD Beograd Articles of Association (revised text), and in line with the Articles 25, 27 and 32 of the Law on Accounting, at its regular session held on 20.07.2015, the General Meeting of Shareholders of Komercijalna banka AD Beograd passed the following

D E C I S I O N

ON ADOPTION OF ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR 2014

I

Annual Report on Operation of Komercijalna Banka AD Beograd Group for 2014 is hereby adopted.

II

Consolidated Financial Statements of Komercijalna Banka AD Beograd Group with the opinion of the external auditor for **2014** are adopted as follows:

1. Balance Sheet – Consolidated on December the 31st 2014,
2. Income Statement – Consolidated for the period 01.01 until 31.12.2014,
3. Other Financial Result – Consolidated for the period 01.01 until 31.12.2014,
4. Cash Flow Statement - Consolidated for the period 01.01 until 31.12.2014,
5. Statement of Changes in Equity - Consolidated for the period 01.01 until 31.12.2014 and
6. Notes to Consolidated Financial Statements for 2014,

In wording that constitutes an integral part of this Decision.

III

This decision becomes effective on the day of its passing.

CHAIRPERSON OF THE GENERAL
MEETING OF SHAREHOLDERS

Jovanka Kosanović