KOMERCIJALNA BANKA AD BEOGRAD

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2015

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 31.12.2015

(in RSD thousand)

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount – Closing balance	Previous year amount – 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	19	68.895.218	72.633.528	-
	Pledged financial assets	0002		-	-	-
120, 220, 125 and 225	Financial assets recognised at fair value through income statement and held for trading	0003	20	855.811	121.634	-
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	21	130.330.094	98.958.788	-
124, 224, part of 129 and part of 229	Financial assets held to maturity	0006	22	109.306	390.015	-
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	23	17.848.897	35.733.988	-
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	24	179.422.656	203.828.648	-
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	25	-	-	-
33	Intangible investments	0013	26	251.948	451.205	-
34	Property, plant and equipment	0014	27	6.392.007	6.605.496	-
35	Investment property	0015	28	2.899.921	2.711.213	-
034 and part of 039	Current tax assets	0016	29	40.079	79.572	-
37	Deferred tax assets	0017	30.1	-	5	-
36	Non-current assets held for sale and discontinued operations	0018	31	170.667	137.802	-
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	32	7.661.929	9.050.215	-
	TOTAL ASSETS (from 0001 to 0019)	0020		**414.878.533**	**430.702.109**	**-**

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	33	18.768.726	26.247.764	-
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	34	319.334.622	321.094.208	-
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	35	6.077.962	6.036.680	-
450, 451, 452, 453 and 454	Provisions	0409	36	2.212.728	1.732.069	-
46	Liabilities under assets held for sale and discontinued operations	0410		-	-	-
455	Current tax liabilities	0411	18	11.905	14.726	-
47	Deferred tax liabilities	0412	30.1	139.534	160.991	-
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0413	37	5.019.966	3.314.942	-
	TOTAL LIABILITIES (from 0401 to 0413)	0414		**351.565.443**	**358.601.380**	**-**
80	CAPITAL Share capital	0415	25; 38	40.034.550	40.034.550	-
128	Own shares	0416		-	-	-
83	Profit	0417	38	195.933	6.925.972	-
84	Loss	0418	38	7.200.445	-	-
81 and 82 – credit balance	Reserves	0419	25; 38	30.282.987	25.140.140	-
81 and 82 – debit balance	Unrealized losses	0420		-	-	-
	Non-controlling participation	0421	38	65	67	-
	TOTAL CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422		**63.313.090**	**72.100.729**	**-**
	TOTAL CAPITAL SHORTFALL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423		**-**	**-**	**-**
	TOTAL LIABILITIES (0414 + 0422 - 0423)	0424		**414.878.533**	**430.702.109**	**-**

In ____________

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, 14, Svetog Save		

INCOME STATEMENT - CONSOLIDATED

in the period from January 1st to December 31st, 2015

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	8	20.292.958	22.791.487
60	Interest expenses	1	0	0	2	8	5.691.858	8.355.436
	Net interest income (1001 - 1002)	1	0	0	3		**14.601.100**	**14.436.051**
	Net interest expenses (1002 - 1001)	1	0	0	4		**-**	**-**
71	Income from fees and commissions	1	0	0	5	9	6.391.393	6.030.531
61	Expenses on fees and commissions	1	0	0	6	9	1.201.111	1.046.591
	Net income from fees and commissions (1005 - 1006)	1	0	0	7		**5.190.282**	**4.983.940**
	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	10	4.264	7.022
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	19.334	79.245
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	12	6.366	200.284
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	13	471.037	478.844
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	5; 14	13.807.580	2.821.458
	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		**6.472.071**	**16.963.360**

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	4.693.323	4.745.269
642	Depreciation costs	1	0	2	7	16	865.987	932.851
64 (except 642), 624, 652, 653, 66 (except 660 and 669), 672, 673	Other expenses	1	0	2	8	17	8.044.592	6.492.439
	PROFIT BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1	0	2	9		-	**4.792.801**
	LOSSES BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1	0	3	0		**7.131.831**	-
850	Profit tax	1	0	3	1	18	22.211	23.148
861	Gains from deferred taxes	1	0	3	2	18	114.819	47.547
860	Losses on deferred taxes	1	0	3	3	18	108	21.823
	PROFIT AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	4		-	**4.795.377**
	LOSSES AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	5		**7.039.331**	-
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**
	RESULT FOR THE PERIOD – LOSSES (1034 - 1035 + 1036 - 1037) < 0	1	0	3	9		**7.039.331**	-
	Profit belonging to a parent entity	1	0	4	0		-	**4.795.377**
	Profit belonging to non-controlling owners	1	0	4	1		-	-
	Losses belonging to a parent entity	1	0	4	2		**7.039.329**	-
	Losses belonging to non-controlling owners	1	0	4	3		**2**	-
	EARNINGS PER SHARE							
	Basic earnings per share (in dinars, without paras)	1	0	4	4	38.2	-	253
	Diluted earnings per share (in dinars, without paras)	1	0	4	5	38.2	-	253

In ___________
Date ___________________

Legal representative of the bank
____

Registration number: 07737068	**Completed by bank** **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, 2015

(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
	LOSS FOR THE PERIOD	2002		7.039.331	-
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		-	-
820	Decrease in revaluation reserves arising from intangible investments and fixed assets	2004	38.3.	234	3.472
822	Actuarial gains	2005	36; 38.3.	-	7.357
822	Actuarial losses	2006	36; 38.3.	39.843	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	38.3.	700.130	748.153
823	Unrealized losses on securities available for sale	2010	38.3.	34.281	91.445
824	Gains from cash flow hedges	2011		-	-
824	Losses on cash flow hedges	2012		-	-
826	Cumulative translation gains for foreign operations	2013	38.4.	23.939	374.967
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	38.3.	5.678	45.412
82	Tax losses pertaining to other comprehensive income of the period	2018	38.3.	98.880	221.204
	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		**556.509**	**831.960**
	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**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2022		**6.482.822**	-
	Total positive comprehensive income for the period belonging to a parent entity	2023		**-**	**5.627.337**
	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		6.482.820	-
	Total negative comprehensive income for the period belonging to non-controlling owners	2026		2	-

In _______________,
Date ____________

Legal representative of the bank
____

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 31.12.2015.

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A. I.	CASH FLOW FROM OPERATING ACTIVITIES Cash inflow from operating activities (from 3002 to 3005)	3001	26.842.635	28.021.728
1.	Interest	3002	20.361.516	21.775.054
2.	Fees	3003	6.288.891	6.016.498
3.	Other operating income	3004	188.652	229.408
4.	Dividends and profit sharing	3005	3.576	768
II.	Cash outflow from operating activities (from 3007 to 3011)	3006	18.889.338	20.649.146
5.	Interest	3007	6.307.483	8.455.712
6.	Fees	3008	1.204.621	1.047.845
7.	Gross salaries, salary compensations and other personal expenses	3009	4.653.121	4.528.929
8.	Taxes, contributions and other duties charged to income	3010	878.747	856.507
9.	Other operating expenses	3011	5.845.366	5.760.153
III.	Net cash inflow from operating activities before an increase or decrease in lending and deposits (3001 - 3006)	3012	7.953.297	7.372.582
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	25.371.475	33.807.770
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	25.371.475	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	-	-
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
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	10.665.402	4.786.862
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	-
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	2.787.085	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	7.878.317	-
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	22.659.370	36.393.490
VIII.	Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22.	Profit tax paid	3030	22.247	18.218
23.	Dividends paid	3031	403	481.710
IX.	Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	22.636.720	35.893.562
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. I.	CASH FLOW FROM INVESTING ACTIVITIES Cash inflow from investing activities (from 3035 to 3039)	3034	30.082.331	18.500.189
1.	Investment in investment securities	3035	30.052.943	18.487.730
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	27.782	12.459
4.	Sale of investment property	3038	1.606	-
5.	Other inflow from investing activities	3039	-	-
II.	Cash outflow for investing activities (from 3041 to 3045)	3040	57.516.667	50.607.338
6.	Investment into investment securities	3041	57.118.678	50.095.346
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	397.989	511.992
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	27.434.336	32.107.149
C. I.	CASH FLOW FROM FINANCING ACTIVITIES Cash inflow from financing activities (from 3049 to 3054)	3048	122.582.139	209.112.020
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	122.582.139	209.112.020
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	127.150.287	209.072.271
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	127.150.287	209.072.271
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
IV.	Net cash outflow for financing activities (3055 - 3048)	3062	4.568.148	-
D.	TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	204.878.580	289.441.707
E.	TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	214.244.344	285.615.545
F.	NET INCREASE IN CASH (3063-3064)	3065	-	3.826.162
G.	NET DECREASE IN CASH (3064-3063)	3066	9.365.764	-
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	47.896.270	42.723.039
I.	EXCHANGE RATE GAINS	3068	1.375.219	1.917.335
J.	EXCHANGE RATE LOSSES	3069	1.239.040	570.266
K.	CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	38.666.685	47.896.270

In ________

Date ____________

Legal representative of the bank

____

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 31.12.2015.

(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	17.191.525	4029	-	4057	22.843.084	4085	17.063.828	4113	3.261.304	4127	187.011	4141	6.868.966	4175	-	4209	67.041.696	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	17.191.525	4032	-	4060	22.843.084	4088	17.063.828	4116	3.261.304	4130	187.011	4144	6.868.966	4178	-	4210	67.041.696	4216	-
5.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4117	998.869	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	50.863	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	4.795.377	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	190.318	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	4.220.734	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	4.220.734	4185	-	x	x	x	x
15.	Dividend payments	4009	-	4037	-	4065	-	4093	-	x	x	x	x	4152	604.620	4186	-	x	x	x	x
16.	Other – increase	4010	3	4038	-	4066	-	4094	23.602	x	x	x	x	4153	46.891	4187	-	x	x	x	x
17.	Other – decrease	4011	-	4039	-	4067	-	4095	190.318	x	x	x	x	4154	150.226	4188	-	x	x	x	x
18.	**Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0**	4012	3	4040	-	4068	-	4096	4.054.018	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	4.928.689	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	17.191.528	4042	-	4070	22.843.084	4098	21.117.846	4119	4.260.173	4133	237.874	4157	6.925.972	4191	-	4211	72.100.729	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	17.191.528	4043	-	4071	22.843.084	4099	21.117.846	4120	4.260.173	4134	237.874	4158	6.925.972	4192	-	4212	72.100.729	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	17.191.528	4046	-	4074	22.843.084	4102	21.117.846	4123	4.260.173	4137	237.874	4161	6.925.972	4195	-	4213	72.100.729	4219	-
25.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4124	555.768	4138	2.140	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	1	4139	34.374	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	-	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	7.039.331	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	-	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	4.616.652	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	4.617.887	4202	1.235	x	x	x	x
35.	Dividend payments	4023	-	4051	-	4079	-	4107	-	x	x	x	x	4169	1.962.751	4203	-	x	x	x	x
36.	Other – increase	4024	-	4052	-	4080	-	4108	2.662	x	x	x	x	4170	197.599	4204	162.351	x	x	x	x
37.	Other – decrease	4025	-	4053	-	4081	-	4109	-	x	x	x	x	4171	347.000	4205	-	x	x	x	x
38.	**Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0**	4026	-	4054	-	4082	-	4110	4.619.314	x	x	x	x	4172	-	4206	161.116	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	6.730.039	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	25.737.160	4126	4.815.940	4140	270.108	4174	195.933	4208	7.200.447	4214	63.313.090	4220	-

In ________
Date ______________

Legal representative of the bank
____

KOMERCIJALNA BANKA A.D., BEOGRAD

Consolidated Financial Statements
Year Ended December 31, 2015
and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

Deloitte.

Deloitte d.o.o.
Terazije 8
11000 Belgrade
Serbia

Tax Identification Number: 10048772
Registration Number: 07770413

Tel: +381 11 3812 100; + 381 11 3812 200
Fax: +381 11 3812 101; + 381 11 3812 201

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Komercijalna banka a.d., Beograd (hereinafter: the "Parent Bank"), enclosed on pages 2 to 119 and its subsidiaries (hereinafter collectively the "Group"), which comprise the consolidated statement of financial position as of December 31, 2015 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, and 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 the Law on Audit of the Republic of Serbia and International Standards on Auditing. 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2015, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Management of the Group is responsible for the preparation of the consolidated annual business report in accordance with 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 accompanying consolidated annual business report for the year 2015 with the Group's consolidated financial statements for the same financial year. In our opinion, the financial information disclosed in the Group's consolidated annual business report for 2015 is consistent with its audited consolidated financial statements for the year ended December 31, 2015.

Belgrade, April 6, 2016

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION
As of December 31, 2015
(Thousands of RSD)

	Note	2015	2014
ASSETS			
Cash and cash funds held with the central bank	3 k; 19	68,895,218	72,633,528
Financial assets at fair value through profit and loss, held for trading	3 l; 20	855,811	121,634
Financial assets available for sale	3 n (iii); 21	130,330,094	98,958,788
Financial assets held to maturity	3 q (i); 22	109,306	390,015
Loans and receivables due from banks and other financial institutions	3 m; 23	17,848,897	35,733,988
Loans and receivables due from customers	3 m; 24	179,422,656	203,828,648
Intangible assets	3 p; 26	251,948	451,205
Property, plant and equipment	3 o; 27	6,392,007	6,605,496
Investment property	3 q; 28	2,899,921	2,711,213
Current tax assets	3 I (i); 29	40,079	79,572
Deferred tax assets	3 i(ii); 30.1;	-	5
Non-current assets held for sale and assets from discontinued operations	3 r; 31	170,667	137,802
Other assets	3 r; 32	7,661,929	9,050,215
Total assets		414,878,533	430,702,109
LIABILITIES AND EQUITY			
Deposits and other liabilities due to banks, other financial institutions and the central bank	3 u; 33	18,768,726	26,247,764
Deposits and other liabilities due to customers	3 u; 34	319,334,622	321,094,208
Subordinated liabilities	3 u; 35	6,077,962	6,036,680
Provisions	3 v; 36	2,212,728	1,732,069
Current tax liabilities	3 i(i); 18;	11,905	14,726
Deferred tax liabilities	3 i(ii); 30.1	139,534	160,991
Other liabilities	37	5,019,966	3,314,942
Total liabilities		351,565,443	358,601,380
EQUITY			
Issued (share) capital	3 y; 25; 38	40,034,550	40,034,550
Profit	3 y ; 38	195,933	6,925,972
Loss	3 y; 38	(7,200,445)	-
Reserves	3 y; 25; 38	30,282,987	25,140,140
Non-controlling interests	38.	65	67
Total equity attributable to the majority owners of the Bank		63,313,090	72,100,729
Total liabilities and equity		414,878,533	430,702,109

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 6, 2016.

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

Jelena Đurović
Executive Board Member

Alexander Picker
Executive Board Chairman

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2015
(Thousands of RSD)

	Note	2015	2014
Interest income	3 c;8	20,292,958	22,791,487
Interest expenses	3 c;8	(5,691,858)	(8,355,436)
Net interest income		14,601,100	14,436,051
Fee and commission income	3 d;9	6,391,393	6,030,531
Fee and commission expenses	3 d;9	(1,201,111)	(1,046,591)
Net fee and commission income		**5,190,282**	**4,983,940**
Net gains on the financial assets held for trading	3 d;10	4,264	7,022
Net gains on the financial assets available for sale	3 n(iii);11	19,334	79,245
Net foreign exchange losses and negative currency clause effects	3 d;12	(6,366)	(200,284)
Other operating income	3 g;13	471,037	478,844
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3 j; 5; 14	(13,807,580)	(2,821,458)
Total operating income		6,472,071	16,963,360
Staff costs	15	(4,693,323)	(4,745,269)
Depreciation and amortization charge	3 o(iii) ;16	(865,987)	(932,851)
Other expenses	3 h;17	(8,044,592)	(6,492,439)
(loss)/profit before taxes		(7,131,831)	4,792,801
Current income tax expense	3 i(i); 18	(22,211)	(23,148)
Gains on created deferred tax assets and decrease in deferred tax liabilities	3 i(ii) ;18	114,819	47,547
Losses decrease in deferred tax assets and created deferred tax liabilities	3 i(ii) ;18	(108)	(21,823)
(Loss)/profit for the year (net of income taxes)		(7,039,331)	4,795,377
Earnings per share			
Basic earnings per share	3 z; 38.2	(0.376)	0.253
Diluted earnings per share	3 z; 38.2	(0.376)	0.253

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 6, 2016.

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

Jelena Đurović
Executive Board Member

Alexander Picker
Executive Board Chairman

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2015
(Thousands of RSD)

	Note	2015	2014
(Loss)/profit for the year		**(7,039,331)**	**4,795,377**
Other comprehensive income			
Decrease in revaluation reserves in respect of intangible assets, property, plant and equipment	38.3	(234)	(3,472)
Actuarial gains	36;38.3	-	7,357
Actuarial losses	36;38.3	(39,843)	(27,808)
Net increase from the fair value adjustment of financial assets available for sale	38.3	700,130	748,153
Unrealized losses on securities available for sale	38.3	(34,281)	(91,445)
Cumulative foreign exchange gains on translation of foreign operations	38.4	23,939	374,967
Gains from taxes related to the other comprehensive income	38.3	5,678	45,412
Losses from taxes related to the other comprehensive income	38.3	(98,880)	(221,204)
Other comprehensive income for the year, net of taxes		556,509	831,960
Total comprehensive income for the year		(6,482,822)	5,627,337

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 6, 2016.

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

Jelena Đurović
Executive Board Member

Alexander Picker
Executive Board Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2015
(Thousands of RSD)

	Issued Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves	Profit	Total Majority Owners	Non-Controlling Interests	Total
Balance at January 1, 2014	**17,191,466**	**22,843,084**	**17,063,824**	**3,074,293**	**6,868,966**	**67,041,633**	**63**	**67,041,696**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	4,795,377	4,795,377	-	**4,795,377**
2013 profit distribution	-	-	4,220,734	-	(4,220,734)	-	-	**-**
	-	-	4,220,734	-	574,643	4,795,377	-	**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	-	**656,708**
Net increase in foreign exchange gains in respect of equity investments	-	-	-	374,967	-	374,967	-	**374,967**
Actuarial losses (Note 36)	-	-	-	(20,451)	-	(20,451)	-	**(20,451)**
Other	-	-	-	(3,472)	-	(3,472)	-	**(3,472)**
Tax effects of other comprehensive income	-	-	-	(175,792)	-	(175,792)		**(175,792)**
Other comprehensive income for the year, net of taxes	-	-	-	785,069	46,891	831,960	-	**831,960**
Transactions with equity holders, recognized directly in equity								
Laibilities for dividends for preferred shares	-	-	-	-	(604,620)	(604,620)	-	**(604,620)**
Liabilities for employee share in profit	-	-	-	-	(18,093)	(18,093)	-	**(18,093)**
	-	**-**	**-**	**-**	**(622,713)**	(622,713)	**-**	**(622,713)**
Other								
Actuarial gains from prior years (Note 38)				141,732	(141,732)	-		**-**
Other (foreign exchange effects)	-	-	(166,717)	21,205	199,917	54,405	4	**54,409**
	-	**-**	**(166,717)**	**162,937**	**58,185**	54,405	**4**	**54,409**
Balance at December 31, 2014	**17,191,466**	**22,843,084**	**21,117,841**	**4,022,299**	**6,925,972**	**72,100,662**	**67**	**72,100,729**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
Year Ended December 31, 2015
(Thousands of RSD)

	Issued Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves	Profit	(Loss)	Total Majority Owners	Non-Controlling Interests	Total
Balance at January 1, 2015	**17,191,466**	**22,843,084**	**21,117,841**	**4,022,299**	**6,925,972**	**-**	**72,100,662**	**67**	**72,100,729**
Total comprehensive income for the year									
Loss for the year	-	-	-	-	-	(7,039,329)	(7,039,329)	(2)	(7,039,331)
2014 profit distribution	-	-	4,616,652	-	(4,617,887)	1,235	-	-	-
	-	-	4,616,652	**-**	(4,617,887)	(7,038,094)	(7,039,329)	(2)	(7,039,331)
Other comprehensive income for the year									
Decrease in revaluation reserves from property, plant and equipment	-	-	-	(234)	-	**-**	**(234)**	**-**	**(234)**
Gains on realized reserves (depreciation effects)	-	-	-	(33,446)	33,446	-	**-**	-	**-**
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	-	665,849	-	-	**665,849**	-	**665,849**
Net increase in foreign exchange gains in respect of equity investments	-	-	-	23,939	-	-	**23,939**	-	**23,939**
Actuarial losses (Note 36)	-	-	-	(39,843)	-	-	**(39,843)**	-	**(39,843)**
Tax effects of other comprehensive income	-	-	-	(93,202)	-	-	**(93,202)**	-	**(93,202)**
Other comprehensive income for the year, net of taxes	-	-	-	523,063	33,446	**-**	**556,509**		**556,509**
Transactions with equity holders, recognized directly in equity									
Laibilities for dividends for preferred shares	-	-	-	-	(1,962,751)	-	**(1,962,751)**	-	**(1,962,751)**
Liabilities for employee share in profit	-	-	-	-	(347,000)	-	**(347,000)**	-	**(347,000)**
	-	**-**	**-**	**-**	**(2,309,751)**	-	**(2,309,751)**	**-**	**(2,309,751)**
Other									
Other (foreign exchange effects)	-	-	2,662	470	164,153	**(162,351)**	**4,934**	-	**4,934**
	-	-	2,662	470	164,153	**(162,351)**	**4,934**	-	**4,934**
Balance at December 31, 2015	**17,191,466**	**22,843,084**	**25,737,155**	**4,545,832**	**195,933**	**(7,200,445)**	**63,313,025**	**65**	**63,313,090**

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 6, 2016.

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

Jelena Đurović
Executive Board Member

Alexander Picker
Executive Board Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2015
(Thousands of RSD)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**26,842,635**	**28,021,728**
Interest receipts	20,361,516	21,775,054
Fee and commission receipts	6,288,891	6,016,498
Receipts of other operating income	188,652	229,408
Dividend receipts and profit sharing	3,576	768
Cash used in operating activities	**(18,889,338)**	**(20,649,146)**
Interest payments	(6,307,483)	(8,455,712)
Fee and commission payments	(1,204,621)	(1,047,845)
Payments to, and on behalf of employees	(4,653,121)	(4,528,929)
Taxes, contributions and other duties paid	(878,747)	(856,507)
Payments for other operating expenses	(5,845,366)	(5,760,153)
Net cash inflows from operating activities prior to changes in loans and deposits	**7,953,297**	**7,372,582**
Decrease in loans and increase in deposits received and other liabilities	**25,371,475**	**33,807,770**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	25,371,475	5,624,610
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	-	28,183,160
Increase in loans and decrease in deposits received and other liabilities	**(10,665,402)**	**(4,786,862)**
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	(2,787,085)	(4,786,862)
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	(7,878,317)	-
Net cash generated by operating activities before income taxes	**22,659,370**	**36,393,490**
Income taxes paid	(22,247)	(18,218)
Dividends paid	(403)	(481,710)
Net cash generated by operating activities	**22,636,720**	**35,893,562**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	**30,082,331**	**18,500,189**
Proceeds from investment securities	30,052,943	18,487,730
Proceeds from the sales of intangible assets, property, plant and equipment	27,782	12,459
Proceeds from the sales o finvestment property	1,606	-
Cash used in investing activities	**(57,516,667)**	**(50,607,338)**
Cash used for investment securities	(57,118,678)	(50,095,346)
Cash used for the purchases of intangible assets, property, plant and equipment	(397,989)	(511,992)
Net cash used in investing activities	**(27,434,336)**	**(32,107,149)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**122,582,139**	**209,112,020**
Inflows from the borrowings	122,582,139	209,112,020
Cash used in financing activities	**(127,150,287)**	**(209,072,271)**
Cash used in the repayment of borrowings	(127,150,287)	(209,072,271)
Net cash (used in)/generated by financing activities	**(4,568,148)**	**39,749**
TOTAL CASH INFLOWS	204,878,580	289,441,707
TOTAL CASH OUTFLOWS	(214,244,344)	(285,615,545)
NET CASH (DECREASE)/INCREASE	**(9,365,764)**	**3,826,162**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**47,896,270**	**42,723,039**
FOREIGN EXCHANGE GAINS	1,375,219	1,917,335
FOREIGN EXCHANGE LOSSES	(1,239,040)	(570,266)
CASH AND CASH EQUIVALENTS, END OF YEAR	**38,666,685**	**47,896,270**

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 6, 2016.

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

Jelena Đurović
Executive Board Member

Alexander Picker
Executive Board Chairman

All amounts expressed in thousands of RSD, unless otherwise stated.

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% - Investment Fund Management Company 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 (hereinafter collectively: 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, 2015 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 228 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina (2014: 38 branch offices and 240 sub-branches).

As of December 31, 2015 the Group had 3,148 employees (December 31, 2014: 3,178 employees).

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

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

The Group's consolidated financial statements for 2015 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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 RS nos. 71/2014 and 135/2014).

These 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 2015 the Group members maintained their books of account and prepared unconsolidated (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 stand-alone financial statements were audited by external auditors under the effective local 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.

These consolidated financial statements were approved for issue by the Executive Board of Komercijalna banka a.d., Beograd on April 6, 2016.

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.

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. New and Revised IFRS Mandatorily Effective in the Current Period

In the current year the Parent Bank applied the following amendments and revisions to IFRS issued by the International Accounting Standards Board ("IASB") mandatorily effective for the accounting periods beginning on or after January 1, 2015:

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

- Amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle (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). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

- Amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle (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). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

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

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 for the financial year ended December 31, 2015:

- 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. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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.

- 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).

- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of 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).

- 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 IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

- Amendments resulting from Annual Improvements to IFRSs 2012-2014 Cycle (IFRS 5, IFRS 7 and IAS 19) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2016).

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

- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016).

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

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

IFRS 9 *"Financial Instruments"*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

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

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

IFRS 15 *“Revenue from Contracts with Customers”*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligations in the contract, and
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 11 “*Accounting for Acquisitions of Interests in Joint Operations”*

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 “Business Combinations”. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 “Income Taxes” regarding the recognition of deferred taxes at the time of acquisition and IAS 36 “Impairment of Assets” regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January1, 2016. Management of the Parent Bank anticipates that the application of these amendments to IFRS 11 may have an impact on the Group’s financial statements in future periods should such transactions arise.

Amendments to IAS 1 *“Disclosure Initiative”*

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. Management of the Parent Bank does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Group’s financial statements.

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 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortization*"

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Bank uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. Management of the Parent Bank believes that that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and, accordingly, does not anticipate the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's financial statements.

Amendments to IAS 16 and IAS 41 *"Agriculture: Bearer Plants"*

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.The application of these amendments to IAS 16 and IAS 41 will have a material impact on the Group's financial statements as the Group is not engaged in agricultural activities.

Amendments to IFRS 10, IFRS 12 and IAS 28 "*Investment Entities: Applying the Consolidation Exception*"

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves. Management of the Parent Bank does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Group's financial statements, as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

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

Annual Improvements to IFRSs 2012-2014 Cycle (Continued)

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management of the Parent Bank does not anticipate that the application of these amendments will have a material effect on the Group's financial statements.

2.4. Going Concern

The Group's financial statements have been prepared on a going concern basis, which entails that the Group will continue to operate for an indefinite period in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently 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 2015 of RSD 120.7441 for EUR 1 and RSD 61.7355 for BAM 1, while the other consolidated financial statements (statement of financial position, statement of other comprehensive income and statement of changes in equity) were recalculated by applying the closing exchange rate effective as of the reporting date of RSD 121.6261 for EUR 1, i.e., RSD 62.1864 for BAM 1.

(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.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign Exchange Translation (Consolidated)

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

	2015	In RSD 2014
USD	111.2468	99.4641
EUR	121.6261	120.9583
CHF	112.5230	100.5472
BAM	62.1864	61.8450

(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, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

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

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Current and deferred taxes are recognized as income (benefits) and expenses and are included in the net profit/(loss) for the year.

(ii) Deferred Income Taxes

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 income taxes that relate to items that are directly credited or charged to equity are also allocated within equity.

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 in which settlement or refund of significant deferred tax assets or liabilities is expected.

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) Classifaction

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 policies.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

((iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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.

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 statement of financial position.

(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 RSD 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 other than those 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 a revalued 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 within 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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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	3 – 10	10%-33.3%
Leasehold improvements	1 – 11	4.25%-75.18%

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 the lease term.

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, 2015 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' share 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 monetary and non-montary forms. 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 independently 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.

In accordance with IFRS 8 "Operating Segments," the Group discloses information on the performance of segments thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities (Note 6.2).

Upon determining operating segments, the Group uses the following:

a) different products and services offered by the segments,
b) separate segment management, and
c) internal reporting structure.

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 risk identification, measurement, monitoring, minimizing and control, i.e., setting of risk limits and reporting on risks 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 risks 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.

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 the 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, analyzes 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 analyzes 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 achieving 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.

4. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

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.

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.

Competences

The Board of Directors is competent and responsible for adopting risk management strategy and policies as well as the capital management strategy, for establishment of internal control system and supervision of its efficiency, supervision of the work of the Executive Board, adoption of quarterly risk management reports, adoption of the Disaster Recovery Plan and execution of the process of internal capital adequacy assessment.

The Executive Board is competent and responsible for implementation of the Group's risk management strategy and policies, capital management strategy through adoption of risk management procedures, i.e., procedures for identifying, measuring and assessing risk, ensures their implementation and reports to the Board of Directors on such activities. In addition, the Executive Board assesses the risk management system and at least quarterly reports to the Board of Directors on the risk exposure levels and risk management and decides, after obtaining an approval of the Board of Directors, on each increase in the Bank's exposure to an entity related to the Group and notifies the Board of Directors thereof.

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

The Asset and Liability Committee (ALCO) is authorized and responsible for monitoring the Bank's risk exposure resulting from the structure of its on-balance sheet receivables, payables and off-balance sheet items, and proposes measures for managing interest rate 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 Collections 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.

4. RISK MANAGEMENT (Continued)

Competences (Continued)

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.

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 Group's financial result and capital arising from debtors' inability to settle the matured liabilities to the Group members.

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.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

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.

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.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Basic credit risk alleviating techniques are:

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

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)

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015 and 2014 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, 2015		**December 31, 2014**	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**439,447,451**	**400,121,123**	**440,425,629**	**414,668,645**
Cash and cash funds held with the central bank	68,895,218	68,895,218	72,633,528	72,633,528
Loans and receivables due from banks and other financial institutions	18,248,795	17,848,897	36,102,850	35,733,988
Loans and receivables due from customers	217,556,126	179,422,656	228,397,640	203,828,648
Financial assets	131,393,251	131,295,211	99,590,860	99,470,437
Other assets	3,354,061	2,659,141	3,700,751	3,002,044
II. Off-balance sheet items	**30,916,843**	**30,341,437**	**32,294,161**	**31,693,332**
Payment guarantees (Note 39.1)	5,337,033	5,164,181	5,547,353	5,394,823
Performance bonds (Note 39.1)	6,756,947	6,640,059	8,138,838	7,977,118
Irrevocable commitments	18,250,616	18,241,064	17,808,782	17,800,489
Other items	572,247	296,133	799,188	520,902
Total (I+II)	**470,364,294**	**430,462,560**	**472,719,790**	**446,361,977**

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015	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	-	-	-	-	-	-	4,086,644	4,086,644	16,081,934
Loans matured and not provided for	-	-	-	-	-	-	136,129	136,129	1,223,716
Group-level impaired	40,315,977	18,710,583	5,764,344	6,753,580	7,578,052	79,122,536	93,418,959	172,541,495	943,145
Individually impaired	1,158,845	52,152	82,542	6,697	1,956,567	3,256,803	37,535,055	40,791,858	-
Total	**41,474,822**	**18,762,735**	**5,846,886**	**6,760,277**	**9,534,619**	**82,379,339**	**135,176,787**	**217,556,126**	**18,248,795**
Impairment allowance	**1,040,522**	**1,225,912**	**424,146**	**831,702**	**1,734,363**	**5,256,645**	**32,876,825**	**38,133,470**	**399,898**
Group-level impairment allowance	734,752	1,216,742	405,809	831,440	1,214,031	4,402,774	16,327,028	20,729,802	399,898
Individual impairment allowance	305,770	9,170	18,337	262	520,332	853,871	16,549,797	17,403,668	-
Net carrying value	**40,434,300**	**17,536,823**	**5,422,740**	**5,928,575**	**7,800,256**	**77,122,694**	**102,299,962**	**179,422,656**	**17,848,897**

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

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	76,102,712	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**	**445,232**	**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	422,237	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	615,620	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)

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. Fully (100%) impaired loans and receivables were subject to group-level impairment.

In 2015 the Parent Bank was subject to the special diagnostic study (“SDS”) organized by the National Bank of Serbia. As a result of the said study conducted under the methodology comparable to the methodology of the European Central Bank, as well as of the performed due diligence project as part of the privatization process, impairment allowance items were significantly increased in December 2015.

Each Group member’s increase in impairment allowances in 2015 was also triggered by the amended Methodology for Colalteral Valuation and hence the Methodology for Assessing Impairment Allowance of Balance Sheet Assets and Provisions for Lossess per Off-Balance Sheet Items. Amendments pertain to the haircut percentages per collateral type, expected period of collection from collateral foreclosure, and colalteral catalogue prepared by uniting several collateral categories per region.

Loans and 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.

Loans and Receivables not Matured but 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, the Ministry of Finance of the Republic of Srpska and the local self-governance units secured with the guarantee of the Republic of Montenegro).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	3,895,638	3,895,638	16,081,934
High (IR 4 and 5)	-	-	-	-	-	-	191,006	191,006	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**4,086,644**	**4,086,644**	**16,081,934**

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**

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

December 31, 2015	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	-	-	1,223,716
31 - 90 days past due	-	-	-	-	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-	136,129	136,129	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**136,129**	**136,129**	**1,223,716**

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**

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015 and 2014. 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, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Housing loans	762,571	663,024	657,284	609,387	406,885	317,173	153,798	145,617
Cash loans	187,954	162,516	236,848	213,044	42,652	25,175	40,721	28,648
Agricultural loans	57,580	43,892	65,924	57,632	28,824	25,274	32,673	29,229
Other loans	12,949	11,853	23,068	22,447	748	399	15,273	14,505
Micro businesses	560,913	388,948	522,946	430,387	475,013	396,530	433,929	372,987
Total retail	**1,581,967**	**1,270,233**	**1,506,070**	**1,332,897**	**954,122**	**764,551**	**676,394**	**590,986**
Corporate customers	27,595,618	23,657,380	24,824,759	24,251,419	27,008,258	13,712,759	17,248,429	12,828,553
Total	**29,177,585**	**24,927,613**	**26,330,829**	**25,584,316**	**27,962,380**	**14,477,310**	**17,924,823**	**13,419,539**

Credit quality of rescheduled loans and receivables, gross

	December 31, 2015			December 31, 2014		
	Loans and receivables	Rescheduled and restructured receivables	%	Loans and receivables	Rescheduled and restructured receivables	%
Not matured and not impaired	4,121,803	191,005	4,63%	4,188,899	-	-
Matured but not impaired	138,680	-	-	1,557,306	-	-
Group-level impaired	172,503,785	32,812,198	19,02%	172,680,513	24,093,390	13.95%
Individually impaired	40,791,858	24,136,762	59,17%	49,970,922	20,162,262	40.35%
Total	**217,556,126**	**57,139,965**	**26,26%**	**228,397,640**	**44,255,652**	**19.38%**
Impairment allowance	**38,133,470**	**17,735,043**	**46,51%**	**24,568,992**	**5,251,797**	**21.38%**
Group impairment allowance	20,729,802	7,978,460	38,49%	13,018,407	454,386	3.49%
Individual impairment allowance	17,403,668	9,756,583	56.06%	11,550,585	4,797,411	41.53%
Securitized with collaterals	**193,751,038**	**48,773,836**	**25,17%**	**191,567,490**	**37,337,677**	**19.49%**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

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.

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

	Loans and receivables				Off-balance sheet items			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Finance and insurance sector	**4,536,224**	**4,430,619**	**12,266,474**	**12,159,949**	**204,905**	**204,872**	**292,092**	**292,091**
Corporate and public company sector	**109,374,486**	**92,328,400**	**128,865,183**	**117,577,990**	**20,700,705**	**20,148,037**	**21,887,165**	**21,296,705**
Agriculture	5,663,059	5,373,223	6,704,231	6,430,156	710,580	448,349	562,860	296,126
Processing industry	45,831,763	37,627,156	54,699,077	48,205,029	3,633,884	3,614,746	4,175,688	4,123,741
Power industry	4,085,576	4,078,728	6,910,426	6,909,493	747,948	747,823	979,209	979,108
Construction industry	4,418,946	3,566,347	5,877,592	5,399,560	6,361,246	6,270,652	7,730,105	7,613,719
Wholesale and retail	34,075,124	28,539,577	38,458,752	35,049,540	6,456,268	6,328,667	6,182,757	6,053,044
Services industries	12,843,012	11,295,727	13,750,430	13,261,821	1,749,015	1,727,299	1,514,960	1,495,887
Real estate business	2,457,006	1,847,642	2,464,675	2,322,391	1,041,764	1,010,501	741,586	735,080
Entrepreneurs	**2,984,187**	**2,660,248**	**2,927,946**	**2,632,189**	**384,236**	**379,875**	**439,521**	**435,145**
Public sector	**9,593,147**	**9,562,430**	**16,285,108**	**16,248,700**	**289,308**	**286,815**	**395,441**	**394,444**
Retail sector	**72,872,730**	**69,322,439**	**70,464,159**	**67,320,500**	**8,637,093**	**8,634,287**	**8,764,227**	**8,759,233**
Non-residents	**13,564,931**	**13,187,779**	**16,603,359**	**16,258,631**	**542,771**	**542,770**	**105,098**	**105,098**
Other customers	**22,879,216**	**5,779,638**	**17,088,262**	**7,364,677**	**157,825**	**144,781**	**410,617**	**410,616**
Total	**235,804,921**	**197,271,553**	**264,500,491**	**239,562,636**	**30,916,843**	**30,341,437**	**32,294,161**	**31,693,332**

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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:

	Loans and receivables				Off-balance sheet items			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Serbia	201,974,468	165,682,483	219,704,972	196,611,282	27,643,451	27,103,328	30,046,297	29,477,873
Montenegro	7,902,460	7,041,803	7,080,721	6,317,535	2,005,540	1,984,285	1,318,283	1,302,816
Bosnia and Herzegovina	10,174,443	9,183,677	10,944,571	10,222,406	1,196,610	1,182,582	811,797	794,859
European Union	10,466,948	10,464,617	16,326,339	16,324,009	34,580	34,580	64,244	64,244
USA and Canada	687,851	393,549	454,386	191,260	27,719	27,719	45,916	45,916
Other countries	4,598,751	4,505,424	9,989,502	9,896,144	8,943	8,943	7,624	7,624
Total	**235,804,921**	**197,271,553**	**264,500,491**	**239,562,636**	**30,916,843**	**30,341,437**	**32,294,161**	**31,693,332**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.4. Financial Assets

	December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net
Financial assets:				
- at fair value through profit and loss, held for trading (Note 20)	855,811	855,811	121,634	121,634
- available for sale (Note 21)	130,330,464	130,330,094	98,959,282	98,958,788
- held to maturity (Note 22)	206,975	109,306	509,944	390,015
	131,393,250	**131,295,211**	**99,590,860**	**99,470,437**

Financial assets at fair value through profit and loss relate to the Republic of Serbia's old foreign currency savings bonds, the Republic of Serbia coupon 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, the Republic of Montenegro, 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, fully impaired.

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 and receivables;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans for the Parent Bank's housing loans.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals)

For valuation of property or pledges assigned over movable assets, the Group members hire independent 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, o more frequently, as appropriate. This is how the Group protects itself from potential losses arising from inability to collect its receivables from collateral foreclosure.

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:

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015					December 31, 2014				
	Properties	Deposits	Guarantees	Other collaterals	Total	Properties	Deposits	Guarantees	Other collaterals	Total
Housing loans	38,106,117	61,462	-	1,398,167	39,565,746	37,217,662	61,466	-	1,233,637	38,512,765
Cash loans	395,490	341,718	-	8,568,425	9,305,633	373,630	301,798	-	3,242,179	3,917,607
Agricultural loans	3,225,302	25,602	109,707	1,772,353	5,132,964	2,877,933	20,500	120,694	1,455,592	4,474,719
Other loans	139,084	52,751	-	161,602	353,437	149,671	51,903	-	347,212	548,786
Micro business	4,096,566	612,293	9,328	4,833,396	9,551,583	3,996,271	558,944	8,882	5,004,701	9,568,798
Total retail loans	**45,962,559**	**1,093,826**	**119,035**	**16,733,943**	**63,909,363**	**44,615,167**	**994,611**	**129,576**	**11,283,321**	**57,022,675**
Corporate loans	65,023,730	1,544,339	8,101,585	55,172,021	129,841,675	62,860,117	1,281,209	8,751,614	61,651,875	134,544,815
Total	**110,986,289**	**2,638,165**	**8,220,620**	**71,905,964**	**193,751,038**	**107,475,284**	**2,275,820**	**8,881,190**	**72,935,196**	**191,567,490**

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 (2015: RSD 28.6 billion; 2014: 27.4 billion).

All amounts expressed in thousands of RSD, unless otherwise stated.

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) spread.

Breakdown of housing loans per LTV ratio spread

	December 31, 2015	December 31, 2014
Below 50%	6,522,196	6,839,244
From 50% to 70%	8,597,356	8,452,740
From 71% to 100%	13,921,888	14,813,539
From 101% to 150%	7,045,483	5,544,481
Above 150%	3,233,792	2,368,052
Other	2,154,107	2,776,722
Total exposure	**41,474,822**	**40,794,778**
Average LTV ratio	**65.25%**	**65.08%**

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

	2015	2014
Residential premises	813,175	932,338
Business premises	3,709,587	3,829,703
Equipment	107,017	106,469
Land and forests	622,809	615,984
Total	**5,252,588**	**5,484,494**
Accumulated depreciation	(1,450,810)	(475,929)
Net book value	**3,801,778**	**5,008,565**

In 2015, in the process of debt collection the Group foreclosed collaterals totaling RSD 178,726 thousand (2014: RSD 3,002,589 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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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	
	2015	**2014**	**2015**	**2014**
As at December 31	2.71	2.79	2.46	2.47
Average for the period	3.09	3.24	2.78	2.83
Maximum for the period	3.93	4.29	3.57	3.97
Minimum for the period	1.90	1.71	1.68	1.52

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

During 2015 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	2015	2014
GAP up to 1 month / Total assets	Max (10%)	5.06%	10.86%
Cumulative GAP up to 3 months / Total assets	Max (20%)	6.27%	11.87%

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, 2015

	Up to a 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	68,895,218	-	-	-	-	68,895,218
Loans and receivables due from banks and other financial institutions	15,587,402	1,131,050	12,154	1,098,099	20,192	17,848,897
Loans and receivables due from customers	17,523,283	9,030,475	40,446,564	74,382,455	38,039,879	179,422,656
Financial assets (securities)	4,934,122	10,448,073	40,570,700	72,551,035	2,791,281	131,295,211
Other assets	2,238,171	-	27,380	393,589	-	2,659,140
Total	109,178,196	20,609,598	81,056,798	148,425,178	40,851,352	400,121,122
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,749,772	1,255,870	4,404,506	8,677,947	1,680,631	18,768,726
Deposits and other liabilities due to customers	177,015,247	22,776,928	84,273,927	32,653,608	2,614,912	319,334,622
Subordinated liabilities	-	-	-	6,077,962	-	6,077,962
Other liabilities	3,771,251	-	897,156	-	-	4,668,407
Total	183,536,270	24,032,798	89,575,589	47,409,517	4,295,543	348,849,717
Net liquidity gap						
As of December 31, 2015	(74,358,074)	(3,423,200)	(8,518,791)	101,015,661	36,555,809	51,271,405

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

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

	Up to a 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	(6,396,838)	(5,219,660)	(16,066,653)	46,158,735	39,732,719	58,208,303

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Non-discounted cash flows from monetary assets and monetary liabilities as of December 31, 2015:

	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	68,895,218	-	-	-	-	68,895,218
Loans and receivables due from banks and other financial institutions	15,588,602	1,131,301	21,580	1,116,637	20,284	17,878,404
Loans and receivables due from customers	18,488,402	10,833,317	47,148,220	95,414,205	48,948,244	220,832,388
Financial assets (securities)	5,123,924	11,420,857	43,032,350	76,260,280	2,945,795	138,783,206
Other assets	2,238,171	-	27,380	393,589	-	2,659,140
Total	**110,334,317**	**23,385,475**	**90,229,530**	**173,184,711**	**51,914,323**	**449,048,356**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,751,935	1,351,379	4,759,157	9,622,776	1,915,793	20,401,040
Deposits and other liabilities due to customers	177,972,937	23,130,495	86,680,782	34,815,170	2,772,016	325,371,400
Subordinated liabilities	-	-	-	6,663,977	-	6,663,977
Other liabilities	3,771,249	-	897,156	-	-	4,668,405
Total	**184,496,121**	**24,481,874**	**92,337,095**	**51,101,923**	**4,687,809**	**357,104,822**
Net liquidity gap						
As of December 31, 2015	**(74,161,804)**	**(1,096,399)**	**(2,107,565)**	**122,082,788**	**47,226,514**	**91,943,534**

Non-discounted 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**

Non-discounted 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 Group holds for trading or to hedge other financial instruments that are maintained in the trading book.

The Parent 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 Risk

Interest 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 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.

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.3. Interest Risk (Continued)

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	2015	2014
Relative GAP	Max 15%	1.15%	1.41%
Mismatch ratio	0.75 – 1.25	1.01	1.02

During 2015 the Group's interest rate risk ratios were within internally prescribed limits.

Compliance with internally defined limits of economic value of equity:

	2015	2014
As at December 31	5.18%	7.92%
Average for the year	7.27%	7.28%
Maximum for the year	9.35%	7.92%
Minimum for the year	5.18%	6.63%
Limit	20%	20%

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, 2015:

	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	26,789,635	-	-	-	-	**26,789,635**	42,105,583	**68,895,218**
Loans and receivables due from banks and other financial institutions	13,932,335	1,131,048	12,153	155,331	31,745	**15,262,612**	2,586,285	**17,848,897**
Loans and receivables due from customers	80,500,960	14,024,780	43,541,024	25,553,937	13,818,789	**177,439,490**	1,983,166	**179,422,656**
Financial assets (securities)	4,240,893	29,094,133	28,678,844	64,816,089	2,791,281	**129,621,240**	1,673,971	**131,295,211**
Other assets	-	-	-	-	-	**-**	2,659,140	**2,659,140**
Total	**125,463,823**	**44,249,961**	**72,232,021**	**90,525,357**	**16,641,815**	**349,112,977**	**51,008,145**	**400,121,122**
Deposits and other liabilities due to banks, other financial institutions and the central bank	4,015,337	5,354,860	8,937,810	435,972	23,921	**18,767,900**	826	**18,768,726**
Deposits and other liabilities due to customers	185,570,478	21,003,844	80,274,434	28,460,808	1,170,622	**316,480,186**	2,854,436	**319,334,622**
Subordinated liabilities	-	-	6,077,962	-	-	**6,077,962**	-	**6,077,962**
Other liabilities	-	-	-	-	-	**-**	4,668,407	**4,668,407**
Total	**189,585,815**	**26,358,704**	**95,290,206**	**28,896,780**	**1,194,543**	**341,326,048**	**7,523,669**	**348,849,717**
Interest rate GAP:								
- at December 31, 2015	**(64,121,992)**	**17,891,257**	**(23,058,185)**	**61,628,577**	**15,447,272**	**7,786,929**	**43,484,476**	**51,271,406**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.3. Interest Risk (Continued)

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	18,542,340	**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**	**26,895,382**	**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	3,499	**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	1,573,113	**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**	**25,318,770**	**7,550,343**	**50,657,960**	**58,208,303**

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.3. Interest Risk (Continued)

Risk of Changes in Interest Rates (Continued)

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.
2015		
As at December 31	488,661	(488,661)
Average for the year	407,553	(407,553)
Maximum for the year	488,661	(488,661)
Minimum for the year	326,445	(326,445)
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)

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.

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.4. Currency Risk (Continued)

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:

	2015	2014
Total currency risk balance	6,126,044	6,511,704
Currency risk ratio	13.77%	16.78%
Legally-defined limit	20%	20%

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.4. Currency Risk (Continued)

Breakdown of Monetary Assets and Monetary Liabilities per Currencies as of December 31, 2015

	EUR	**USD**	**CHF**	**Other Currencies**	**FX Total**	**Currency Clause EUR**	**Currency Clause USD**	**Currency Clause CHF**	**RSD Items**	**Total**
Cash and cash funds held with the central bank	34,260,326	214,506	1,651,663	3,975,656	**40,102,151**	-	-	-	28,793,067	**68,895,218**
Loans and receivables due from banks and other financial institutions	8,837,892	3,858,453	1,833,686	1,600,760	**16,130,791**	-	-	-	1,718,106	**17,848,897**
Loans and receivables due from customers	16,704,860	31,452	-	2,460,488	**19,196,800**	114,426,868	129	5,393,075	40,405,784	**179,422,656**
Financial assets (securities)	78,547,189	7,478,087	1,665,663	546,168	**88,237,107**	452,323	-	-	42,605,781	**131,295,211**
Other assets	418,919	92,698	593	27,571	**539,781**	14	-	-	2,119,345	**2,659,140**
Total	**138,769,186**	**11,675,196**	**5,151,605**	**8,610,643**	**164,206,630**	**114,879,205**	**129**	**5,393,075**	**115,642,083**	**400,121,122**
Deposits and other liabilities due to banks, other financial institutions and the central bank	15,912,048	32,644	4,997	90,675	**16,040,364**	2,013,823	-	-	714,539	**18,768,726**
Deposits and other liabilities due to customers	224,818,571	10,934,364	10,355,471	4,512,663	**250,621,069**	6,574,729	5,844	-	62,132,980	**319,334,622**
Subordinated liabilities	6,077,962	-	-	-	**6,077,962**	-	-	-	--	**6,077,962**
Other liabilities	914,399	23,190	71,280	132,506	**1,141,375**	-	-	-	3,527,032	**4,668,407**
Total	**247,722,980**	**10,990,198**	**10,431,748**	**4,735,844**	**273,880,770**	**8,588,552**	**5,844**	-	**66,374,551**	**348,849,717**
Net currency position - December 31, 2015	**(108,953,794)**	**684,998**	**(5,280,143)**	**3,874,799**	**(109,674,140)**	**106,290,653**	**(5,715)**	**5,393,075**	**49,267,532**	**51,271,405**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

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	Currency Clause USD	Currency Clause 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	221,941,072	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	-	-	-	2,028,392	3,081,690
Total	**247,655,293**	**8,516,369**	**8,407,630**	**4,191,408**	**268,770,700**	**10,121,615**	**690,265**	**2,475**	**76,875,287**	**356,460,342**
Net currency position - December 31, 2014	**(108,825,135)**	**775,386**	**(5,630,577)**	**3,466,849**	**(110,213,477)**	**111,690,806**	**(690,265)**	**5,715,428**	**51,705,811**	**58,208,303**

All amounts expressed in thousands of RSD, unless otherwise stated.

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 2015 and 2014 is presented in the table below:

	As of December 31	Average	Maximum	Minimum
2015				
Currency risk	55,129	36,590	187,775	10,250
2014				
Currency risk	47,241	10,701	62,464	2,452

4.6. Operational Risk

The Group member Banks monitor operational risk events daily and manage operating risks. For the purpose of efficient operational risk monitoring, the Group member Banks appoint employees who are in charge of operational risk with the objective of monitoring operational risk in every Bank's 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.

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.

4. RISK MANAGEMENT (Continued)

4.6. Operational Risk (Continued)

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 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.

4.9. 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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015					December 31, 2014	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets							
Loans and receivables due from customers	179,422,656	178,509,257	-	-	178,509,257	203,828,648	203,207,437
Investment securities held to maturity	109,306	109,306	-	-	109,306	390,015	390,015
Financial liabilities							
Deposits and other liabilities due to customers	319,334,622	319,099,716	-	-	319,099,716	321,094,208	310,012,734

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 each Group member Bank's Business Policy.

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.

.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

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

Financial instruments measured at fair value

December 31, 2015	Level 1	Level 2	Level 3	Total assets/liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	855,811	-	-	855,811
Securities available for sale (RSD)	-	42,150,010	-	42,150,010
Securities available for sale (FX)	325,804	87,854,280	-	88,180,084
Total	**1,181,615**	**130,004,290**	**-**	**131,185,905**

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**

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.

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.11. Capital Management (Continued)

Capital adequacy ratio

	2015	2014
Core capital	40,641,634	34,335,837
Supplementary capital	4,034,778	4,669,970
Deductible items	(190,945)	(189,710)
Capital	**44,485,467**	**38,816,098**
Credit risk-weighted assets	166,568,209	185,240,046
Operational risk exposure	22,226,158	20,601,708
Foreign currency risk exposure	4,167,685	1,447,635
Capital adequacy ratio (minimum 12%)	**23.05%**	**18.73%**

As of December 28, 2015, the National Bank of Serbia issued the Parent Bank Decision on defined minimum capital and eligible liabilities requirement. As of December 31, 2015, the Parent Bank complied with the defined minimum capital and eligible liabilities requirement as prescribed by NBS.

In the course of 2015 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.

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).

Valuation of Financial Instruments

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

5. USE OF ESTIMATES (Continued)

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

Valuation of Financial Instruments (Continued)

The Group members measure 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 determine 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 generally accepted 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.

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING

6.1. Strategic Segment Reporting – Group Members

The Parent Bank monitors and discloses operations per segment through 2 reporting models:
- Strategic segment reporting – Group members (Note 6.1) and
- Operating segment reporting – business lines (Note 6.2).

Information on each reporting segment's results is presented in the following pages.

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.

The Parent Bank monitors and discloses information on the strategic segments – Group members – 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 93.0% of the total consolidated balance sheet assets (2014: 92.9%).

The total balance sheet assets of Komercijalna banka a.d., Budva accounted for 3.0% of the total consolidated balance sheet assets (2014: 3.24%); the total balance sheet assets of Komercijalna banka a.d., Banja Luka – 4.0% (2014: 3.83%); and those of KomBank Invest – 0.03% (2014: 0.03%).

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.

Upon consolidation, all inter-company transaction balances were eliminated from the statement of financial position in the amount of RSD 7,048,858 thousand (2014: RSD 6,231,466 thousand). From the income statements income totaling RSD 35,586 thousand (2014: RSD 152,322 thousand) was eliminated, as well as expenses amounting to RSD 26,093 thousand (2014: RSD 28,367 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

2015 Statement of Financial Position

	Summary Unconsolidated Statement of Financial Position	Consolidated Statement of Financial Position Amount	Consolidated Statement of Financial Position
	421,927,391	**7,048,858**	**414,878,533**
Cash/liabilities		980,087	
Loans/liabilities		587,883	
Investments/equity		5,480,888	

2015 Income Statement

	Summary Unconsolidated Profit within Income Statement (before taxes)	Consolidated Income Statement Amount		Consolidated Profit (before taxes)
		Income	Expenses	
	(7,141,324)	**35,586**	**26,093**	**(7,131,831)**
Interest		8,968	8,968	
Fees and commissions		7,996	7,996	
Foreign exchange effects (reclassified to equity)		18,622	9,129	

2014 Statement of Financial Position

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

2014 Income Statement

	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 (reclassified to equity)		3,266	-	
Dividend		120,689	-	

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 quarterly basis. What follows are the summaries of the strategic segments' financial information and activities included in the consolidated statement of financial position and consolidated income statement for 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION as of December 31, 2015

	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	63,523,715	1,495,679	3,875,824	-	68,895,218
Financial assets at fair value through profit and loss, held for trading	851,056	-	-	4,755	855,811
Financial assets available for sale	127,173,383	1,937,561	1,219,150	-	130,330,094
Financial assets held to maturity	-	-	-	109,306	109,306
Loans and receivables due from banks and other financial institutions	16,263,827	1,041,823	543,247	-	17,848,897
Loans and receivables due from customers	162,742,565	6,229,312	10,450,779	-	179,422,656
Intangible assets	216,830	16,898	18,220	-	251,948
Property, plant and equipment	6,139,572	200,220	52,164	51	6,392,007
Investment property	2,744,026	-	155,895	-	2,899,921
Current tax assets	37,017	-	2,945	117	40,079
Non-current assets held for sale and assets from discontinued operations	63,314	-	107,353	-	170,667
Other assets	6,040,404	1,576,307	44,292	926	7,661,929
Total assets	**385,795,709**	**12,497,800**	**16,469,869**	**115,155**	**414,878,533**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION as of December 31, 2015 (Continued)

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the central bank	16,171,598	286,726	2,310,402	-	18,768,726
Deposits and other liabilities due to customers	300,005,903	9,632,142	9,696,577	-	319,334,622
Subordinated liabilities	6,077,962	-	-	-	6,077,962
Provisions	2,109,020	63,231	39,735	742	2,212,728
Current tax liabilities	-	685	11,220	-	11,905
Deferred tax liabilities	127,545	9,433	2,556	-	139,534
Other liabilities	4,920,368	44,223	54,275	1,100	5,019,966
Total liabilities	329,412,396	10,036,440	12,114,765	1,842	351,565,443
Equity					
Issued capital and share premium	40,034,550	-	-	-	40,034,550
Retained earnings/(accumulated losses)	(6,874,912)	47,569	(158,851)	(18,318)	(7,004,512)
Reserves	29,373,116	598,854	311,138	(121)	30,282,987
Non-controlling interests	-	-	65	-	65
Total equity	62,532,754	646,423	152,352	(18,439)	63,313,090
Total liabilities and equity	**391,945,150**	**10,682,863**	**12,267,117**	**(16,597)**	**414,878,533**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

B. CONSOLIDATED STATEMENT OF FINANCIAL POSITION 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**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

B. CONSOLIDATED STATEMENT OF FINANCIAL POSITION as of December 31, 2014 (Continued)

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
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, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

C. CONSOLIDATED INCOME STATEMENT – Year Ended December 31, 2015

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	18,847,353	647,408	786,062	12,135	20,292,958
Interest expenses	(5,326,488)	(169,238)	(196,132)	-	(5,691,858)
Net interest income	13,520,865	478,170	589,930	12,135	14,601,100
Fee and commission income	5,998,900	155,637	229,416	7,440	6,391,393
Fee and commission expenses	(1,101,369)	(35,139)	(64,315)	(288)	(1,201,111)
Net fee and commission income	4,897,531	120,498	165,101	7,152	5,190,282
Net gains on the financial assets held for trading	3,186	-	-	1,078	4,264
Net gains on the financial assets available for sale	(8,664)	15,121	12,363	514	19,334
Net foreign exchange losses and negative currency clause effects	5,183	1,905	(13,462)	8	(6,366)
Other operating income	460,419	6,828	3,624	166	471,037
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(13,008,526)	(556,515)	(242,539)	-	(13,807,580)
Total operating income	5,869,994	66,007	515,017	21,053	6,472,071
Staff costs	(4,121,590)	(271,261)	(289,208)	(11,264)	(4,693,323)
Depreciation and amortization charge	(797,401)	(33,634)	(34,878)	(74)	(865,987)
Other expenses	(7,357,899)	(363,917)	(317,226)	(5,550)	(8,044,592)
(Loss)/Profit before taxes	(6,406,896)	(602,805)	(126,295)	4,165	(7,131,831)
Current income tax expense	-	(685)	(21,384)	(142)	(22,211)
Deferred tax benefits	114,554	265	-	-	114,819
Deferred tax expenses	(27)	(76)	-	(5)	(108)
(Loss)/Profit for the year	**(6,292,369)**	**(603,301)**	**(147,679)**	**4,018**	**(7,039,331)**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.1. Strategic Segment Reporting – Group Members (Continued)

D. CONSOLIDATED 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)
Deferred tax benefits	47,547	-	-	-	47,547
Deferred tax expenses	(19,559)	(2,222)	-	(42)	(21,823)
Profit for the year	**4,641,508**	**141,764**	**10,840**	**1,265**	**4,795,377**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.2. Operating Segment Reporting – Business Lines

The Parent Bank monitors three business lines – profit centers, which represent operating organizational units of the Group. Their operations are subject to segment reporting.

The following tables provide the breakdown of the operating segment activities for each of the business lines after consolidation of all intra-Group transactions:

Corporate Banking	Includes loans, deposits and other transactions with legal entities other than banks
Retail Banking	Includes loans, deposits and other transactions with retail customers - individuals, micro businesses, entrepreneurs and agricultural producers
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

In considering profitability/performance of each segment, in addition to the income and expenses arising from operations with customers, the Parent Bank includes income and expenses arising from inter-segment transactions, calculated using transfer prices determined based on the corresponding market prices (net income/expenses from inter-segment transactions).

The current year's lower profit is partly a result of impairment allowances of loans amounting to RSD 13,807,580 thousand in 2015 (of which RSD 13,464,890 thousand or 97.52% relates to the corporate banking segment).

The amount of operating profit before operating expenses in 2015 was significantly affected by other expenses as well, particularly litigation costs, so that in FY 2015 the Group incurred a loss on other income and expenses in the amount of RSD 471,851 thousand.

Upon preparation of segment reports, operating expenses are divided into direct operating expenses and (under direct operating segment control or directly associated with segment operations) and indirect operating expenses (amounts of these costs are not under direct operating segment control or they cannot be directly associated with segment operations).

Each operating segment is charged direct operating costs related to that particular segment and a portion of indirect operating costs (their allocation to segments is made using appropriate keys for allocation of costs made by cost centers to profit centers).

Direct operating costs at the Group level amounted to RSD 8,947,132 thousand, representing 70.8% of the total operating expenses. Direct operating costs mostly comprise costs directly associated to the segment operations (staff costs, rental costs, depreciation/amortization charge, advertising and marketing costs, etc.) and to a less extent of costs allocated to the segments based on the relevant management decisions.

The amount of RSD 6,591,936 thousand relates to the direct costs of the retail banking segment (73.68% of the total direct operating expenses) as a result of the large distribution network and a number of employees engaged in retail banking operations.

In FY 2015, despite the stable level of net interest income and net fee and commission income, as a result of the aforesaid high amount of loan impairment allowances, the Group recorded negative result before taxes (loss) of RSD 7,131,831 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.2. Operating Segment Reporting – Business Lines (Continued)

Operating segments report for 2015 is provided below:

	Retail banking	Corporate banking	Investment and Interbank operations	Other	Total
Interest income	7,520,267	6,534,586	6,238,105	-	20,292,958
Interest expenses	(3,105,239)	(927,682)	(1,658,937)	-	(5,691,858)
Net interest income	**4,415,028**	**5,606,904**	**4,579,168**	**-**	**14,601,100**
Net inter-segment income/(expenses)	418,842	(2,990,461)	2,571,619	-	-
Net fee and commission income	3,014,531	1,508,522	667,229	-	5,190,282
Profit before impairment allowances	**7,848,401**	**4,124,965**	**7,818,016**	**-**	**19,791,382**
Net impairment allowance (charge)/reversal	(335,617)	(13,464,890)	(7,073)	-	(13,807,580)
Profit before operating expenses	**7,512,784**	**(9,339,925)**	**7,810,943**	**-**	**5,983,802**
Direct operating expenses	(6,591,936)	(2,010,177)	(345,019)	-	(8,947,132)
Foreign exchange gains/(losses), net	-	-	(6,366)	-	(6,366)
Net other income/(expenses)	122,215	(597,424)	3,358	-	(471,851)
Profit before indirect operating expenses	**1,043,063**	**(11,947,526)**	**7,462,916**	**-**	**(3,441,547)**
Indirect operating expenses	(2,020,161)	(1,295,771)	(374,352)	-	(3,690,284)
Profit/(loss) before taxes	**(977,098)**	**(13,243,297)**	**7,088,564**	**-**	**(7,131,831)**
Assets per segments					
Cash and cash funds held with the central bank	-	-	68,895,218	-	68,895,218
Loans and receivables due from banks and other financial institutions	-	-	17,848,897	-	17,848,897
Loans and receivables due from customers	75,504,815	103,917,841	-	-	179,422,656
Investment securities	-	-	131,295,211	-	131,295,211
Other	-	-	-	17,416,551	17,416,551
	75,504,815	**103,917,841**	**218,039,326**	**17,416,551**	**414,878,533**
Liabilities per segments					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	18,768,726	-	18,768,726
Deposits and other liabilities due to customers	232,905,613	63,309,513	23,119,496	-	319,334,622
Subordinated liabilities	-	-	6,077,962	-	6,077,962
Other	-	-	-	7,384,133	7,384,133
	232,905,613	**63,309,513**	**47,966,184**	**7,384,133**	**351,565,443**

Notes: Loans due from the micro-sized legal entities are presented within retail banking segment.
Indirect operating expenses refer to the expenses that are not under control of operating segments.

All amounts expressed in thousands of RSD, unless otherwise stated.

6. SEGMENT REPORTING (Continued)

6.2. Operating Segment Reporting – Business Lines (Continued)

Operating segments report for 2014 is provided below:

	Retail banking	Corporate banking	Investment and Interbank operations	Other	Total
Interest income	7,417,637	8,831,200	6,542,650	-	22,791,487
Interest expenses	(4,627,733)	(1,498,074)	(2,229,629)	-	(8,355,436)
Net interest income	**2,789,904**	**7,333,126**	**4,313,021**	**-**	**14,436,051**
Net inter-segment income/(expenses)	2,303,754	(3,428,395)	1,124,641	-	-
Net fee and commission income	2,982,769	1,015,273	985,898	-	4,983,940
Profit before impairment allowances	**8,076,427**	**4,920,004**	**6,423,560**	**-**	**19,419,991**
Net impairment allowance (charge)/reversal	(382,120)	(2,437,099)	(2,239)	-	(2,821,458)
Profit before operating expenses	**7,694,307**	**2,482,905**	**6,421,321**		**16,598,533**
Direct operating expenses	(6,096,555)	(1,768,295)	(369,458)	-	(8,234,308)
Foreign exchange gains/(losses), net	-	-	(200,284)		(200,284)
Net other income/(expenses)	241,788	89,947	21,940	-	353,675
Profit before indirect operating expenses	**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/(loss) before taxes	**(239,652)**	**(468,654)**	**5,501,107**	-	**4,792,801**
Assets per segments					
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 segments					
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**

Notes: Loans due from the micro-sized legal entities are presented within retail banking segment.
Indirect operating expenses refer to the expenses that are not under control of operating segments.

All amounts expressed in thousands of RSD, unless otherwise stated.

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 that are not recorded at fair value in the financial statements:

(i) Assets and liabilities whose carrying values approximate their fair values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (within a year) it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, saving accounts without a specified maturity and all variable interest rate financial instruments.

(ii) Fixed interest 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 when they were first recognized with current market 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, 2015	2014
Loans and receivables due from banks	153,987	569,269
Loans and receivables due from customers	14,054,825	16,139,836
Loans and receivables due from the central bank	667,426	588,725
Investment securities	5,416,720	5,493,657
Total interest income	20,292,958	22,791,487
Deposits from and liabilities due to banks	221,779	719,962
Deposits from and liabilities due to customers	4,365,345	6,498,595
Borrowings received	1,104,734	1,136,879
Total interest expenses	5,691,858	8,355,436
Net interest income	**14,601,100**	**14,436,051**

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

All amounts expressed in thousands of RSD, unless otherwise stated.

9. NET FEE AND COMMISSION INCOME AND EXPENSES

Net fee and commission income and expenses include:

	Year Ended December 31, 2015	2014
Fee and commission income in RSD		
Payment transfer operations	2,880,097	2,835,577
Fees on issued loans and guarantees - retail customers	21,407	20,011
Fees on issued loans and guarantees - corporate customers	205,396	259,847
Fees on purchase and sale of foreign currencies	617,338	443,916
Brokerage and custody fees	78,483	60,193
Fees arising from card operations	1,348,531	1,160,376
Credit Bureau processing fees	88,021	84,265
Other banking services	603,283	647,091
	5,842,556	5,511,276
Fee and commission income in foreign currencies		
Payment transfer operations	305,185	282,151
Fees on issued loans and guarantees - retail customers	30,078	28,124
Brokerage and custody fees	7,353	2,195
Fees arising from card operations	109,585	116,582
Other banking services	96,636	90,203
	548,837	519,255
	6,391,393	6,030,531
Fee and commission expenses in RSD		
Payment transfer operations	(162,025)	(206,287)
Fees arising on purchase and sale of foreign currencies	(66,890)	(19,437)
Fees arising from card operations	(334,689)	(273,557)
Credit Bureau processing fees	(73,013)	(64,802)
Other banking services	(129,859)	(127,501)
	(766,476)	(691,584)
Fee and commission expenses in foreign currencies		
Payment transfer operations	(82,268)	(69,500)
Fees arising from card operations	(300,213)	(219,683)
Other banking services	(52,154)	(65,824)
	(434,635)	(355,007)
	(1,201,111)	(1,046,591)
Net fee and commission income	**5,190,282**	**4,983,940**

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	Year Ended December 31, 2015	2014
Gains on the fair value adjustment of securities – bonds	2,055	3,669
Gains on the fair value adjustment of securities – investment units	9,640	1,040
Gains on the fair value adjustment of securities – shares	952	426
Gains on the sales of securities at fair value through profit and loss	5,809	3,443
	18,456	8,578
Losses on the fair value adjustment of securities – shares	(52)	(508)
Losses on the fair value adjustment of securities – bonds	(11,217)	(532)
Losses on the fair value adjustment of securities – investment units	-	(49)
Losses on the sales of securities and other financial assets held for trading	(2,923)	(467)
	(14,192)	(1,556)
Net gains on the financial assets held for trading	**4,264**	**7,022**

All amounts expressed in thousands of RSD, unless otherwise stated.

11. NET GAINS ON FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

	Year Ended December 31, 2015	2014
Gains on the sale of securities available for sale	72,153	79,991
Losses on the sale of securities available for sale	(52,819)	(746)
Net (losses)/gains on the financial assets available for sale	**19,334**	**79,245**

Gains on the sale of securities available for sale of RSD 72,153 thousand relate to the gains from the sale of old foreign currency savings bonds (2015 series) in the amount of RSD 27,994 thousand, the Republic of Serbia Treasury bills in the amount of RSD 3,997 thousand, the Republic of Serbia foreign currency bonds in the amount of RSD 27,799 thousand and the Republic of Srpska old foreign currency savings bonds and war reparation bonds in the amount of RSD 12,364 thousand.

Losses on the sale of securities available for sale of RSD 52,819 thousand relate to the losses from the sale of bonds issued by the Republic of Serbia in the amount of RSD 52,443 thousand (foreign currency and RSD bonds in the respective amounts of RSD 13,757 thousand and RSD 38,686 thousand) and bonds issued by banks in the amount of RSD 376 thousand.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2015	2014
Positive currency clause effects	3,911,977	4,993,387
Positive currency clause effects – value adjustment of securities	40,516	14,022
Foreign exchange gains – value adjustment of liabilities	184,665	27,065
Positive currency clause effects – retail customers	2,935,203	2,607,787
Foreign exchange gains	4,455,767	7,492,059
	11,528,128	15,134,320
Negative currency clause effects	(3,403,198)	(980,887)
Negative currency clause effects – value adjustment of securities	(37,868)	(3,392)
Negative currency clause effects – value adjustment of liabilities	(228,029)	(207,365)
Negative currency clause effects – retail customers	(2,041,942)	(343,072)
Foreign exchange losses	(5,823,457)	(13,799,888)
	(11,534,494)	(15,334,604)
Net foreign exchange losses	**(6,366)**	**(200,284)**

13. OTHER OPERATING INCOME

Other operating income relates to:

	Year Ended December 31, 2015	2014
Other income from operations	170,913	188,758
Other income	300,124	290,086
Total	**471,037**	**478,844**

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 respective amounts of RSD 223,163 thousand (2014: RSD 185,661 thousand) and RSD 12,398 thousand (2014: RSD 47,132 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

13. OTHER OPERATING INCOME (Continued)

In 2015 the Parent Bank received dividend from its equity investments and shares held for trading in the amount of RSD 4,927 thousand (2014: RSD 120,689 thousand).

Within the line item of other income from operations in 2015, the most significant items relate to the following:

- Rental income of RSD 101,926 thousand (of which RSD 79,527 thousand relates to the lease of business premises);
- Gains on the sales of property and equipment used in performance of the business activity in the amount of RSD 22,055 thousand;
- Gains on the sales of equipment not previously used in performance of the business activity in the amount of RSD 5,467 thousand; and
- Gains on the sales of assets acquired in lieu of debt collection in the amount of RSD 6,232 thousand.

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, 2015	2014
Impairment allowance of loans and receivables	24,284,742	10,849,649
Provisions for off-balance sheet items	647,438	579,588
Write-off of loans and receivables	126	1,350
Reversal of impairment allowance of loans and receivables	(10,451,493)	(8,141,991)
Reversal of provisions for off-balance sheet items	(673,059)	(467,046)
Collection of receivables previously written-off	(174)	(92)
Total	**13,807,580**	**2,821,458**

Within the line item of losses on the impairment allowance of loans and receivables the Group recorded impairment of tangible assets acquired in lieu of debt collection in the amount of RSD 996,836 thousand based on the appraisals performed by certified appraisers.

Until the end of January 2016 the Group did not have material collections of loans and receivables previously provided for 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 at January 1, 2015	**368,863**	**24,568,992**	**120,423**	**1,623,216**	**600,829**	**27,282,323**
Charge for the year	443	23,033,774	9,065	1,241,460	647,438	24,932,180
Decrease in impairment allowance	(579)	(10,210,531)	(30,325)	(210,058)	(673,059)	(11,124,552)
Foreign exchange effects	31,171	136,987	6	8,207	198	176,569
Write-off s	-	(3,383)	(1,130)	(284)	-	(4,797)
Other movements	-	607,631	-	(23,487)	-	584,144
Balance at December 31, 2015	**399,898**	**38,133,470**	**98,039**	**2,639,054**	**575,406**	**41,845,867**

In 2015 the Group increased impairment allowance and provision amounts by the total of RSD 13,807,580 thousand, net against profit and loss.

All amounts expressed in thousands of RSD, unless otherwise stated.

15. STAFF COSTS

Staff costs include:

	Year Ended December 31, 2015	2014
Net salaries	2,774,740	2,776,267
Net benefits	447,887	472,600
Payroll taxes	412,675	419,099
Payroll contributions	919,989	930,162
Considerations paid to seasonal and temporary staff	14,339	46,337
Provisions for retirement benefits – net (Note 36)	41,634	5,775
Other staff costs	82,059	95,029
Total	**4,693,323**	**4,745,269**

16. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2015	2014
Amortization charge – intangible assets (Note 26.2)	267,854	314,995
Depreciation charge – property and equipment (Note 27.2)	542,847	578,728
Depreciation charge – investment property (Note 28.1)	55,286	39,128
Total	**865,987**	**932,851**

17. OTHER EXPENSES

Other expenses include:

	Year Ended December 31, 2015	2014
Cost of materials	472,907	434,529
Cost of production services	2,451,135	2,431,841
Non-material costs (without taxes and contributions)	2,698,784	2,474,251
Taxes payable	189,386	152,452
Contributions payable	731,505	748,355
Other costs	30,918	34,044
Other expenses	966,485	211,436
Losses on the valuation of investment property and non-current assets held for sale (Notes 28 and 31)	59,072	697
Provisions for litigations (Note 36)	444,400	4,834
Total	**8,044,592**	**6,492,439**

a) Other expenses

Other expenses totaling RSD 966,485 thousand include expenses for the Parent Bank's lost lawsuit against the customer Intereksport a.d., Beograd (in bankruptcy) with regard to the arrangement with the National Bank of Cuba amounting to RSD 560,837 thousand and CAD 2,995 thousand with domestic interest from January 6, 1990 to December 24, 2012, and, from December 25, 2012 up to the payment date, with penalty interest in accordance with the Penalty Interest Act in the total amount of CAD 3,818 thousand.

Outflows per forced collection performed by the National Bank of Serbia on October 19, 2015 in favor of Intereksport a.d., Beograd (in bankruptcy) – bankruptcy estate – was recorded within other expenses as follows:

- Principal of RSD 244,461 thousand;
- Prior years' interest of RSD 311,628 thousand; and
- Court expenses and fees and forced collection performed by the National Bank of Serbia in the amount of RSD 4,748 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

17. OTHER EXPENSES (Continued)

a) Other expenses (Continued)

Given the fact that the first-instance court adjudicated in favor of the Parent Bank, the Parent Bank did not expect outflows in this respect and hence made no provisions for this lawsuit.

b) Provisions for Litigations

Provisions for litigations totaling RSD 444,400 thousand (Note 36) pertain to the following:

- Three new Parent Bank's legal suits of which the largest amount of RSD 201,617 thousand refers to the provision for the lawsuit against the RS Privatization Agency regarding activation of the performance guarantee dated January 14, 2005 at the request of Vektra M d.o.o., Beograd. The total liability as per court ruling amounted to RSD 461,703 thousand, out of which the basic claim from the court ruling amounted to RSD 196,523 thousand, while the Parent Bank was obligated to calculate and pay the related interest as from 2007 up to the payment date. As in the previous year the Parent Bank made provisions per the guarantee at issue in the amount of RSD 260,086 thousand (100%) within off-balance sheet item provisions, the difference up to the required provision amount of RSD 201,617 thousand (relating to the interest) was recognized as a provision for litigations (Note 36).
- Increase in the Parent Bank's provisions for legal suits against Intereksport a.d., Beograd (in bankruptcy) and the Republic of Serbia in the total amount of RSD 192,007 thousand resulted from the adjustment of the liability to its present value due to the increase in the RSD to USD exchange rate by 11.9% (mostly in Q1 and Q4 2015) and calculation of penalty interest for the previous year at the legally prescribed rate.

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 2015 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.

18.1. ***Parent Bank***

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

	Year Ended December 31, 2015	2014
Deferred tax benefits	114,554	47,547
Deferred tax expenses	(27)	(19,559)
Total	**114,527**	**27,988**

In 2015 and 2014 the Parent Bank did not report current income tax expenses pursuant to the effective tax regulations.

All amounts expressed in thousands of RSD, unless otherwise stated.

18. INCOME TAXES (Continued)

18.1. *Parent Bank (Continued)*

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

	2015	2015	2014	2014
(Loss)/profit for the year before taxes		**(6,414,158)**		**4,757,589**
Tax calculated using the local statutory income tax rate	-15%	(962,124)	15%	713,638
Expenses not recognized for tax purposes	21.92%	1,406,244	1.18%	56,261
Tax effects of the net capital losses /gains	-0.10%	(5,773)	-0.01%	(412)
Tax effects of income reconciliation	0%	(3,749)	-0.30%	(14,441)
Tax credit received and used in the current year	0.10%	5,773	0%	-
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-12.79%	(774,755)	-17.72%	(843,246)
Tax effect adjustments – deferred taxes	-1.89%	(114,527)	-0.59%	(27,988)
Tax effects stated within the income statement		**(114,527)**	-	**(27,988)**

Expenses not recognized for tax purposes totaling RSD 1,406,244 thousand, mostly, in the amount of RSD 1,224,171 thousand, relates to the effects of increased impairment allowance of the Parent Bank's receivables above the amount prescribed by NBS regulations (where RSD 1,224,171 thousand equals 15% of RSD 8,161,137 thousand, which is the impairment allowance amount in excess of the prescribed amount).

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

	Year Ended December 31, 2015	2014
Balance as at January 1	(150,407)	(10,156)
Occurrence and reversal of temporary differences	22,862	(140,251)
Balance as at December 31	**(127,545)**	**(150,407)**

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, 2015	2014
Current income tax expense	(685)	(14,726)
Deferred tax benefits	265	-
Deferred tax expenses	(76)	(2,222)
	(496)	**(16,948)**

All amounts expressed in thousands of RSD, unless otherwise stated.

18. INCOME TAXES (Continued)

18.2. Komercijalna banka a.d., Budva (Continued)

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

	2015	2015	2014	2014
(Loss)/profit before taxes		**(606,022)**		**152,881**
Income tax at the statutory tax rate of 9%	9.00%	(54,542)	9.00%	13,759
Taxable income – related parties and capital gains	-0.11%	685	-0.12%	(184)
Expenses not recognized for tax purposes	-0.05%	319	2.47%	3,775
Tax credits available for carryofrward	-8.92%	54,034	-0.26%	(402)
Effective income tax	-0.08%	496	11.09%	16,948
Tax effects stated within the income statement		**496**		**16,948**

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, 2015	2014
Current income tax expense	(21,384)	(8,280)
	(21,384)	**(8,280)**

18.3.2. Usaglašavanje efektivne poreske stope je prikazano u sledećoj tabeli:

	2015	2015	2014	2014
(Loss)/profit before taxes		**(129,975)**		**9,858**
Income tax at the statutory tax rate of 10%	10.00%	(12,998)	10.00%	986
Tax loss carried forward from prior periods	-	-	-27.88%	(2,748)
Expenses not recognized for tax purposes	-0,22%	28,153	163.24%	16,092
Tax exempt income	-0.05%	6,229	-61.37%	(6,050)
Effective income tax	-0.16%	21,384	83.99%	8,280
Tax effects stated within the income statement		**21,384**		**8,280**

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

	Year Ended December 31, 2015	2014
Balance as at January 1	586	-
Occurrence and reversal of temporary differences	1,971	586
Balance as at December 31	**2,557**	**586**

All amounts expressed in thousands of RSD, unless otherwise stated.

18. INCOME TAXES (Continued)

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, 2015	2014
Current income tax expense	(142)	(142)
Deferred tax benefits	-	-
Deferred tax expenses	(5)	(42)
	(147)	**(184)**

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

	Year Ended December 31, 2015	2014
Profit before taxes	3,495	1,419
Income tax at the statutory tax rate of 15%	524	213
Tax effects of the expenses not recognized for tax purposes	10	29
Tax effects of the net capital gains	142	142
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization	37	38
Tax effects of losses within the tax statement	(1,542)	(2,068)
Tax effect adjustments (used and new ones)	829	1,646
Other	147	184
Tax effects stated within the income statement	147	184
Effective tax rate	4.21	12.97

All amounts expressed in thousands of RSD, unless otherwise stated.

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

	December 31, 2015	December 31, 2014
In RSD		
Cash on hand	2,910,101	2,470,753
Gyro account	20,884,697	25,191,123
Deposited surplus liquid assets	5,000,000	-
Other cash funds	100	100
	28,794,898	27,661,976
In foreign currencies		
Cash on hand	4,608,208	3,140,906
Foreign currency obligatory reserves	35,225,371	39,639,224
Other cash funds	266,741	2,191,422
	40,100,320	44,971,552
Total	**68,895,218**	**72,633,528**

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)	9,996,838	14,901,966
Foreign currency obligatory reserves	(35,225,371)	(39,639,224)
Deposited surplus liquid assets	(5,000,000)	-
	(30,228,533)	(24,737,258)
Cash and cash equivalents reported in the	**38,666,685**	**47,896,270**

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 NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily balances 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 RSD reserve is comprised of: obligatory RSD reserves, 38% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 30% 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 paid interest on these RSD reserves at the rate of 2.5% p.a. up to October 17, 2015, at the rate of 2.0% p.a. for the period from October 17, 2015 to November 17, 2015 and at the rate of 1.75% p.a. as from November 18, 2015 (2014: 2.5% p.a.). The 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 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.

Pursuant to the Decision on Amendments to the Decision on Obligatory Reserves Held with NBS dated September 10, 2015, the rates applied in calculation of the obligatory foreign currency reserve were decreased as follows:

- for foreign currency deposits placed up to 730 days the rate of 22% is applied (previously 26%);
- for foreign currency deposits placed for over 730 days the rate of 15% is applied (previously 19%).

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

Parent Bank (Continued)

Foreign currency obligatory reserve does not accrue interest. During 2015, in accordance with the Decision on Obligatory Reserves Held with NBS, the Bank allocated a portion of its foreign currency reserve in RSD equivalent to its gyro account.

Other foreign currency cash funds of RSD 6,075 thousand (2014: RSD 1,660,523 thousand) entirely relate to the Parent Bank’s clearing account held with the s Central Securities Registry, Depository and Clearing House for trade in securities.

Komercijalna banka a.d., Budva

The Bank's obligatory reserve as of December 31, 2015 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. 73/15, 78/15 and 3/16). Pursuant to the aforesaid Decision, the required reserve is to be calculated based on demand deposits and time deposits.

Deposit accounts held with depositary 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 pays interest at the annual rate of 1% to the amount of 15% of the total allocated obligatory reserve funds.

During 2015 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.

As from September 1, 2014, the Central Bank of Bosnia and Herzegovina had 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 or the fee could be minimum zero. Since May 1, 2015 the fees for the obligatory reserve maintenance have been charged using the average EIONIA rate recorded in the market in the same period, less 10 basis points or it could be minimum zero, while the fee for the funds exceeding the obligatory reserve equals zero. The zero rate is applied to the obligatory reserve in the event that the average EIONIA rate decreased by 10 basis points is negative.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

Financial assets held for trading comprise:

	December 31, 2015	December 31, 2014
Securities held for trading (in RSD)	803,543	51,458
Securities held for trading (in foreign currencies)	52,268	70,176
Total (Note 4.1.4)	**855,811**	**121,634**

Breakdown of financial assets held for trading is provided below:

	December 31, 2015	December 31, 2014
	Total assets held for trading	Total assets held for trading
Republic of Serbia bonds	183,121	70,176
Corporate shares	4,520	3,787
Bank shares	275	180
Investment units of OIF KomBank FX Fund	4,755	4,951
Investment units of OIF KomBank RSD Fund	663,140	42,540
Total	**855,811**	**121,634**

Investment units totaling RSD 663,140 thousand as of December 31, 2015 relate to the investment units of two investment funds: Raiffeisen Invest a.d., Beograd and KomBank Invest a.d., Beograd, in the amounts of RSD 486,705 thousand and RSD 176,435 thousand, respectively.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise*:*

	December 31, 2015	December 31, 2014
Securities available for sale (in RSD)	42,150,380	35,179,709
Securities available for sale (in foreign currencies)	88,180,084	63,779,573
Total (Note 4.1.4)	130,330,464	98,959,282
Impairment allowance	(370)	(494)
Total	**130,330,094**	**98,958,788**

Financial assets available for sale

Securities available for sale (in RSD) as of December 31, 2015 relate to the Republic of Serbia Treasury bills in the amount of RSD 11,669,591 thousand (2014: RSD 10,590,077 thousand), Republic of Serbia bonds in the amount of RSD 29,948,565 thousand (2014: RSD 22,992,331 thousand), bonds of the City of Pančevo and Municipalities Stara Pazova and Šabac in the amount of RSD 452,692 thousand (2014: RSD 443,283 thousand), bonds of the company Tigar a.d., Pirot in the amount of RSD 79,442 thousand (2014: RSD 69,769 thousand), and shares of AIK banka a.d., Beograd in the amount of RSD 90 thousand (2014: RSD 90 thousand).

Out of the total amount of impairment allowance, RSD 366 thousand relates to the bonds of the company Tigar a.d., Pirot.

All amounts expressed in thousands of RSD, unless otherwise stated.

21. FINANCIAL ASSETS AVAILABLE FOR SALE (Continued)

Securities available for sale (in foreign currencies) as of December 31, 2015 relate to the Republic of Serbia Treasury bills in the amount of RSD 11,897,890 thousand (2014: RSD 10,257,953 thousand), long-term Government of the Republic of Serbia bonds in the amount of RSD 72,682,845 thousand (2014: RSD 50,159,809 thousand), Republic of Serbia old savings bonds in the amount of RSD 934,678 thousand (2014: RSD 1,346,991 thousand), Republic of Montenegro Government bonds in the amount of RSD 329,343 thousand, Republic of Srpska Government bonds in the amount of RSD202,307 thousand (2014: RSD 290,305 thousand), Republic of Srpska Treasury bills of RSD 123,497 thousand, foreign bank bonds of Raiffeisen Bank International in the amount of RSD 1,665,663 thousand (2014: RSD 1,397,811 thousand) and bonds of the UK Government in the amount of RSD 343,861 thousand (2014: RSD 326,704 thousand).

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

Impairment allowance of securities available for sale

	December 31, 2015	December 31, 2014
Individual impairment allowance		
Balance at January 1	494	2,513
Current year impairment allowance:		
Charge for the year (Note 14)	618	1,962
Effects of the changes in foreign exchange rates (Note 14)	6	94
Reversal (Note 14)	(748)	(4,075)
Total individual impairment allowance	**370**	**494**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

	December 31, 2015	December 31, 2014
Securities held to maturity (in RSD)	206,975	280,123
Securities held to maturity (in foreign currencies)	-	229,821
Impairment allowance	(97,669)	(119,929)
Total (Note 4.1.4)	**109,306**	**390,015**

Impairment allowance of securities held to maturity

	December 31, 2015	December 31, 2014
Individual impairment allowance		
Balance at January 1	18,415	42,673
Current year impairment allowance:		
Charge for the year (Note 14)	1,097	8,880
Reclassified from individual to group impairment allowance	-	(24,411)
Reversal (Note 14)	(22,227)	(8,765)
Other	-	38
Total individual impairment allowance	(2,715)	18,415
Group impairment allowance		
Balance at January 1	101,514	-
Current year impairment allowance:		
Charge for the year (Note 14)	7,350	-
Reclassified from individual to group impairment allowance	-	24,411
Reversal (Note 14)	(7,350)	(1,094)
Write-off	(1,130)	-
Other	-	78,197
Total group impairment allowance	100,384	101,514
Total group and individual impairment allowance	**97,669**	**119,929**

All amounts expressed in thousands of RSD, unless otherwise stated.

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

23.1 Loans and receivables due from banks include:

	December 31, 2015	December 31, 2014
RSD loans and receivables		
Per repo transactions	1,200,000	7,000,000
Loans for working capital	100,000	1,200,000
Overnight loans	500,000	2,200,000
Other loans and receivables	8,686	27,567
Prepayments	14,885	24,595
Impairment allowance	(105,463)	(105,463)
	1,718,108	10,346,699
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	9,996,838	14,901,966
Overnight loans	1,279,338	8,094,628
Other loans and receivables due from foreign banks	615,076	604,747
Foreign currency deposits placed with other banks	3,519,438	1,139,988
Prepayments	12	70
Other receivables	16,485	16,959
Secured foreign currency sureties	998,037	892,331
Impairment allowance	(294,435)	(263,400)
	16,130,789	25,387,289
	17,848,897	**35,733,988**

As of December 31, 2015 securities acquired through reverse repo transactions with the National Bank of Serbia amounting to RSD 1,200,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rates from 2.51% to 6.15%.

Short-term RSD deposits were placed with other banks for a period of up to a year at interest rates ranging from 2.52 % to 10.5% per annum.

Short-term foreign currency deposits were placed with other banks for a period of up to a year at interest rates ranging from 0.01% to 0.5% per annum.

Interest rates applied to the loans extended by the parent Bank to the subsidiary banks ranged between 2.87% and 3.75% plus 3M EURIBOR annually for long-term revolving loans.

Other long-term loans were approved at interest rates of 2.75% to 3.75% plus 6M EURIBOR annually.

Foreign currency short-term loans were approved at an annual interest rate of 7.5%.

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	**2015**	**2014**
Balance at January 1	368,863	325,498
Current year impairment allowance:		
Charge for the year (Note 14)	443	2,940
Effects of the changes in foreign exchange rates (Note 14)	31,171	43,210
Reversal (Note 14)	(579)	(2,785)
Total group impairment allowance	**399,898**	**368,863**

All amounts expressed in thousands of RSD, unless otherwise stated.

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1. Loans and receivables due from customers:

	2015			2014.		
	Gross Amount	**Impairment Allowance**	**Carrying Amount**	**Gross Amount**	**Impairment Allowance**	**Carrying Amount**
Corporate customers						
Transaction account overdrafts	587,564	(187,201)	400,363	655,510	(188,902)	466,608
Working capital loans	46,406,682	(10,411,164)	35,995,518	56,446,391	(6,213,427)	50,232,964
Export loans	2,275,456	(1,525,569)	749,887	2,181,694	(887,774)	1,293,920
Investment loans	28,203,014	(3,348,405)	24,854,609	38,837,397	(2,274,595)	36,562,802
Purchased loans and receivables - factoring	217,372	(12,412)	204,960	101,171	(80,424)	20,747
Loans for payment of imported goods and services	5,372,720	(4,365,328)	1,007,392	5,270,391	(1,804,796)	3,465,595
Receivables for discounted bills of exchange, acceptances and payments made for guarantees called on	2,135,297	(1,478,571)	656,726	1,892,996	(1,084,783)	808,213
Other loans and receivables	64,657,506	(13,660,713)	50,996,793	57,779,622	(9,328,011)	48,451,611
Prepayments	581,182	(205)	580,977	450,950	(905)	450,045
Accruals	(265,283)	-	(265,283)	(333,090)	-	(333,090)
	150,171,510	(34,989,568)	115,181,942	163,283,032	(21,863,617)	141,419,415
Retail customers						
Transaction account overdrafts	4,171,154	(707,611)	3,463,543	4,582,281	(702,959)	3,879,322
Housing loans	41,486,329	(942,474)	40,543,855	40,850,392	(626,768)	40,223,624
Cash loans	18,473,635	(1,022,547)	17,451,088	16,072,903	(979,123)	15,093,780
Consumer loans	530,350	(52,406)	477,944	834,672	(60,279)	774,393
Other loans and receivables	2,970,103	(415,030)	2,555,073	2,971,944	(331,289)	2,640,655
Prepayments	211,985	(3,834)	208,151	228,794	(4,957)	223,837
Accruals	(458,940)	-	(458,940)	(426,378)	-	(426,378)
	67,384,616	(3,143,902)	64,240,714	65,114,608	(2,705,375)	62,409,233
Balance at December 31	**217,556,126**	**(38,133,470)**	**179,422,656**	**228,397,640**	**(24,568,992)**	**203,828,648**

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015	December 31, 2014
Individual impairment allowance		
Balance as at January 1	11,550,585	6,795,008
Current year impairment allowance:		
Charge for the year (Note 14)	10,331,877	6,062,706
Reclassified from individual to group impairment allowance	(2,841,294)	3,110,131
Effects of the changes in foreign exchange rates (Note 14)	35,295	543,728
Reversal (Note 14)	(1,956,656)	(5,877,617)
Transfer from off-balance sheet items	-	394,977
Prior years' interest income	-	(171,669)
Other (Note 14)	283,861	693,321
Total individual impairment allowance	**17,403,668**	**11,550,585**
Group impairment allowance		
Balance as at January 1	13,018,407	13,489,134
Current year impairment allowance:		
Charge for the year (Note 14)	12,701,897	4,326,275
Reclassified from individual to group impairment allowance	2,841,294	(3,110,131)
Effects of the changes in foreign exchange rates (Note 14)	101,692	159,411
Reversal (Note 14)	(8,253,875)	(1,499,048)
Write-of (Note 14)f	(3,383)	(268,885)
Other (Note 14)	323,770	(78,349)
Total group impairment allowance	**20,729,802**	**13,018,407**
Total group and individual impairment allowance	**38,133,470**	**24,568,992**

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 14.45% per month.

Long-term RSD and foreign currency loans were approved for periods from 1 to the maximum of 30 years, at annual interest rates ranging between 3.2% plus 6M EURIBOR and fixed annual rate of 18.5%.

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.

All amounts expressed in thousands of RSD, unless otherwise stated.

25. THE PARENT BANK'S INVESTMENTS IN SUBSIDIARIES

	December 31, 2015	December 31, 2014
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banke a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banke a.d., Budva	2,366,273	2,366,273
Total	**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 1,720,563 thousand (2014: RSD 1,681,795 thousand) – (Note 38.4).

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

	December 31, 2015	December 31, 2014
Intangible assets	240,641	431,007
Intangible assets in progress	11,307	20,198
Total	**251,948**	**451,205**

26.2 Movements on the account of intangible assets in 2015 and 2014 are presented in the table below:

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
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
Balance at January 1, 2015	1,789,567	20,198	1,809,765
Additions	1,381	67,047	68,428
Transfers	75,956	(75,956)	-
Disposal and retirement	(182)	-	(182)
Foreign exchange effects	1,385	18	1,403
Balance at December 31, 2015	1,868,107	11,307	1,879,414
Accumulated Amortization			
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
Balance at January 1, 2015	1,358,560	-	1,358,560
Charge for the year (Note 16)	267,854	-	267,854
Disposal and retirement	(182)	-	(182)
Foreign exchange effects	1,234	-	1,234
Balance at December 31, 2015	1,627,466	-	1,627,466
Net Book Value			
- Balance at January 1, 2014	**574,685**	**14,325**	**589,010**
- Balance at December 31, 2014	**431,007**	**20,198**	**451,205**
- Balance at December 31, 2015	**240,641**	**11,307**	**251,948**

All amounts expressed in thousands of RSD, unless otherwise stated.

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

	December 31, 2015	December 31, 2014
Property	5,568,744	5,650,399
Equipment	774,603	925,853
Investments in progress	48,660	29,244
Total	**6,392,007**	**6,605,496**

27.2 Movements on the account of property and equipment in 2015 and 2014 are presented below:

	Property	Equipment	Investment in Progress	Total
Cost				
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
Balance at January 1, 2015	7,277,458	3,724,602	29,244	11,031,304
Additions	1,144	12,580	330,149	343,873
Transfers from assets acquired in lieu of debt collection	-	-	259,808	259,808
Transfers from investment in progress (Note 28.1)	109,807	200,954	(570,569)	(259,808)
Disposal and retirement	(19,368)	(117,398)	-	(136,766)
Sales	(12,278)	(24,874)	-	(37,152)
Other	(306)	-	-	(306)
Foreign exchange effects	1,465	2,919	28	4,412
Balance at December 31, 2015	7,357,922	3,798,783	48,660	11,205,365
Accumulated Depreciation				
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
Balance at January 1, 2015	1,627,059	2,798,749	-	4,425,808
Charge for the year (Note 16)	180,079	362,768	-	542,847
Disposal and retirement	(16,213)	(115,932)	-	(132,145)
Sales	(2,204)	(24,109)	-	(26,313)
Other	(71)	-	-	(71)
Foreign exchange effects	528	2,704	-	3,232
Balance at December 31, 2015	1,789,178	3,024,180	-	4,813,358
Net Book Value				
- Balance at January 1, 2014	**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**
- Balance at December 31, 2015	**5,568,744**	**774,603**	**48,660**	**6,392,007**

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

All amounts expressed in thousands of RSD, unless otherwise stated.

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

As a result of incomplete land registers, as at December 31, 2015, the Parent Bank did not have title deeds as proof of ownership for 39 buildings stated at the net book value of RSD 529,568 thousand (these buildings include assets acquired in lieu of debt collection). 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 1,406 thousand were retired and derecognized from the Group's records.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2015 and 2014 are presented below:

	Total
Cost	
Balance at January 1, 2014	2,129,436
Transfers from investments in progress and property and equipment	814,487
Appraisal (revaluation) – decrease	(4,216)
Foreign exchange effects	7,100
Balance at December 31, 2014	2,946,807
Balance at January 1, 2015	2,946,807
Transfers from investments in progress (Note 27.2)	259,908
Transfers from assets held for sale	27,008
Sales	(2,783)
Appraisal (revaluation) – decrease (Note 17)	(42,798)
Foreign exchange effects	651
Balance at December 31, 2015	3,188,793
Accumulated Depreciation	
Balance at January 1, 2014	195,118
Charge for the year (Note 16)	39,128
Transfer from property and equipment (Note 27.2)	1,394
Appraisal (revaluation) – decrease	(297)
Foreign exchange effects	251
Balance at December 31, 2014	235,594
Balance at January 1, 2015	235,594
Charge for the year (Note 16)	55,286
Sales	(1,178)
Appraisal (revaluation) – decrease (Note 17)	(877)
Foreign exchange effects	47
Balance at December 31, 2015	288,872
Net Book Value	
- Balance at January 1, 2014	**1,934,318**
- Balance at December 31, 2014	**2,711,213**
- Balance at December 31, 2015	**2,899,921**

Information on investment property per Group member is provided in the following passages.

28.2.1 Parent Bank

As of December 31, 2015 the Parent Bank stated investment property as totaling RSD 2,744,026 thousand (2014: RSD 2,581,144 thousand), comprised of leased out buildings/premises.

Pursuant to executed long-term lease agreements in 2015 the Parent Bank transferred to investment property properties from investment in progress (at no. 29, Resavska St., Belgrade, at no.1/b, Vardarska St., Novi Sad, at no. 88, Bulevar oslobođenja St., Novi Sad - 3 outlets, and premises at n.n., Bulevar 12. februar St., Niš and Gradina) totaling RSD 259,752 thousand.

In 2015, based on the appraisal performed by an external certified appraiser, the Bank impaired investment property in the amount of RSD 41,921 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. INVESTMENT PROPERTY (Continued)

28.2.1 Parent Bank (Continued)

In 2015, the Parent Bank sold the commercial building in Gradina and thus decreased the net book value of investment property by RSD 1,605 thousand. The total selling price of the property amounted to RSD 6,586 thousand.

The appraised value of investment property is provided below:

Property	Area in m²	Carrying amount prior to appraisal RSD '000	Appraised amount EUR '000	Appraised amount RSD '000	Difference RSD '000
Belgrade, Beogradska 39	460	141,886	944	114,815	(27,071)
Belgrade, Resavska 29	264	54,069	373	45,306	(8,763)
Niš, Bulevar 12.februar bb	816	23,329	142	17,242	(6,087)
Total		**219,284**		**177,363**	**(41,921)**

28.2.2 As of December 31, 2015 the net profit realized form investment property amounted to RSD 14,101 thousand:

Property	Area in m²	Total Expenses	Total Rental Income	Net Profit
Beograd, Makedonska 29	5,553	(31,434)	14,906	(16,528)
Niš, , Vrtište new D building	1,816	(3,908)	6,581	2,673
Niš, TPC Kalča	85	(806)	4,647	3,841
Beograd, Omladinskih brigada 19	15,218	(15,695)	17,346	1,651
Šabac, Majur, Obilazni put bb	1,263	(1,036)	1,737	701
Lovćenac, Maršala Tita bb,	46,890	(3,782)	8,683	4,901
Negotin, Save Dragovića 20-22	658	(927)	724	(203)
Niš, Bulevar 12. februar bb	816	(237)	1,390	1,153
Beograd, Radnička 22	7,190	(16,488)	19,041	2,553
Beograd, Beogradska 39	460	(3,718)	8,989	5,271
Beograd, Resavska 29	264	(1,340)	6,431	5,091
Novi Sad, Vardarska 1/B,	291	(1,659)	2,530	871
Novi Sad, Bulevar Oslobođenja 88, 3 stores	57	(2,849)	4,975	2,126
		(83,879)	97,980	14,101

The Parent Bank did not recognize payments for the lease of the property at no. 29, Makenodska St. in Belgrade of RSD 59,051 thousand as rental income given the fact that the original lease agreement had expired and negotiations on another lease agreement were in progress (these payments were recorded as liabilities in settlement).

28.3.1 Komercijalna banka a.d., Banja Luka

As of December 31, 2015, the Bank had investment property stated as totaling RSD 155,895 thousand (2014: RSD 130,069 thousand), mostly comprised of leased out buildings/premises.

The carrying value of investments property the Bank recognized as such under a long-term lease agreement executed in September 2012 amounts to RSD 128,783 thousand. The investment property is comprised of a commercial yard with the area of 1,603m², a free trade zone commercial building – warehouse of raw materials with the area of 873m², a commercial yard with the area of 1,739m², a free trade zone commercial building – production plant with the area of 1,024m², a commercial yard with the area of 1,009m², a commercial building with the area of 949m² and 3rd category pasture with the area of 2,763m² in the District of Brčko.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. INVESTMENT PROPERTY (Continued)

28.3.1 Komercijalna banka a.d., Banja Luka (Continued)

Under the lease agreements executed in September 2015, the Bank transferred from non-current assets held for sale to investment property assets totaling RSD 27,065 thousand, comprised of:

a) Commercial building – new warehouse with the area of 1,870 m², Tišća, Šekovići (RSD 14,492 thousand) and
b) Land in Nova Topola with the area of 5,767 m² (RSD 12,573 thousand).

In 2015 the Bank had its investment property appraised. Fair value of the Bank's investment property at December 31, 2015 was appraised by independent certified appraisers engaged by the Bank in the amount of RSD 187,492 thousand, exceeding the carrying value of the investment property by RSD 31,597 thousand.

The appraised value of investment property of Komercijalna banka a.d., Banja Luka is provided below:

Property	Area in m^2	Carrying amount prior to appraisal RSD '000	Appraised amount EUR '000	Appraised amount RSD '000	Difference RSD '000
Commercial building -production plant and administrative premises, located in the Free Trade Zone of Brčko District – Industry Zone	1,266	51,795	434	52,796	1,001
Commercial building -production plant, located in the Free Trade Zone of Brčko District – Industry Zone	1,088	29,663	249	30,223	560
Commercial building - warehouse located in the Free Trade Zone of Brčko District – Industry Zone	873	16,293	135	16,479	187
Land located in the Free Trade Zone of Brčko District – Industry Zone	1,958	9,017	77	9,390	373
Land located in the Free Trade Zone of Brčko District – Industry Zone	2,763	12,748	106	12,873	124
Land located in the Free Trade Zone of Brčko District – Industry Zone	2,476	9,390	95	11,567	2,177
Land and warehouse in Tišća, Šekovići Municipality	2,776 1,870	14,427	319	38,804	24,377
Land in Nova Topola	6,514	12,562	126	15,360	2,798
Total		**155,895**	**-**	**187,492**	**31,597**

28.3.2 As of December 31, 2015 the net profit realized form investment property amounted to RSD 203 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Profit
Free Trade Zone of Brčko District	7,197	(2,393)	2,339	(54)
Land in Nova Topola	5,767	(4)	309	305
Land and warehouse in Tišća, Šekovići Municipality	1,870	(192)	144	(48)
		(2,589)	2,792	203

All amounts expressed in thousands of RSD, unless otherwise stated.

29. CURRENT TAX ASSETS

Parent Bank

	December 31, 2015	December 31, 2014
Current tax assets (paid monthly advance income tax payments for 2015 as prescribed by the Corporate Income Tax Law)	37,017	73,835

During 2015 the Parent Bank paid no income taxes since for the year 2014 it had not stated tax liabilities for income taxes due to tax exemption of the interest income from debt securities issued by the Republic of Serbia and the National Bank of Serbia. The prior years' prepayment the Bank used to offset value added tax liability payment.

The Parent Bank will use the remaining current tax assets in 2016 to offset payment of other taxes given that the Bank will be exempt from advance income tax payments in 2016.

Komercijalna banka a.d., Banja Luka

	December 31, 2015	December 31, 2014
Current tax assets (paid monthly advance income tax payments for 2015 as prescribed by the Corporate Income Tax Law)	2,945	5,478

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

	December 31, 2015	December 31, 2014
Current tax assets (paid monthly advance income tax payments for 2015 as prescribed by the Corporate Income Tax Law)	117	259

The income tax was prepaid as a result of the obligatory monthly advance income tax payments for the years 2014 and 2015 pursuant to the Corporate Income Tax Law and of the fact that in 2014 and 2015 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 at December 31	**40,079**	**79,572**

30. DEFERRED TAX ASSETS AND LIABILITIES

30.1 Deferred tax assets and liabilities relate to:

	2015			2014		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(35,684)	(35,684)	-	(69,531)	(69,531)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	40,225	(318,953)	(278,728)	40,610	(220,512)	(179,902)
Long-term provisions for retirement benefits	38,682	(231)	38,451	28,571	(293)	28,278
Impairment of assets	136,427	-	136,427	60,142	-	60,142
Assets based on calculation of public duties	-	-	-	27	-	27
Total	**215,334**	**(354,868)**	**(139,534)**	**129,350**	**(290,336)**	**(160,986)**

All amounts expressed in thousands of RSD, unless otherwise stated.

30. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Tax credits not recorded in the Parent Bank's books for which deferred tax assets were not created, yet which can be utilized to offset income taxes payable in the ensuing periods totaled RSD 3,005,377 thousand and mostly pertained to the tax loss incurred in 2015 (RSD 2,970,516 thousand).

30.2 Movements on temporary differences during 2015 and 2014 are presented as follows:

2015	Balance at January 1	Recognized in Profit or Loss	Recognized in Equity	Foreign exchange effects	Balance at December 31
Property and equipment	(69,531)	33,946	(70)	(29)	(35,684)
Securities	(179,902)	-	(98,379)	(447)	(278,728)
Long-term provisions for retirement benefits	28,278	4,507	5,247	419	38,451
Impairment of assets	60,142	76,285	-	-	136,427
Assets based on calculating public duties	27	(27)	-	-	-
Total	**(160,986)**	**114,711**	**(93,202)**	**(57)**	**(139,534)**

2014	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)

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

	December 31, 2015	December 31, 2014
Non-current assets held for sale and assets from discontinued operations	170,667	137,802
	170,667	137,802

Parent Bank's non-current assets held for sale

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	598
Požarevac, M.Pijade 2, business premises	790.82	31,012
Požarevac, M.Pijade 2, business premises	880.86	25,660
Belgrade, Toše Jovanovića 7, business premises	24.05	2,156
Vrbas, M. Tita 49, business premises	145.56	3,888
		63,314

During 2015 the Parent Bank sold two properties (two sets of business premises in Kruševac) and thus decreased the net book value of non-current assets held for sale by RSD 29,301 thousand. The total selling price of the properties amounted to RSD 46,269 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

Parent Bank's non-current assets held for sale (Continued)

(

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

In 2015, based on the appraisal performed by an external certified appraiser, the Parent Bank decreased the value of non-current assets held for sale in the amount of RSD 1,686 thousand (Note 17).

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

Property	Area in m^2	Carrying Value
Business premises, Posušje	1,289.00	26,154
Commercial building and land, Hadžići	775.00	20,987
Family house, Prijedor	505.65	6,840
Commercial building and land,Kočićevo Gradiška	5,333.50	22,076
Commercial buildings and land, Mrkonjić grad	2,619.00	21,765
Equipment, miscellaneous machinery		9,531
		107,353

During 2015 the Bank sold no buuilidng properties classified as non-current assets helod for sale.

In 2015 the Bank sold non-current assets held for sale (equipment) and thus decreased the net book value of non-current assets held for sale by RSD 668 thousand. The total selling price of the equipment amounted to RSD 622 thousand.

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

The Bank had an independent appraisers asses the market value of the non-current assets held for sale and based on the appraisal results, decreased the value o such assets by RSD 14,817 thousand. In addition, pursuant to the Bank's internal bylaws, the vale of non-current assets held for sale was further decreased by RSD 648 thousand, so that aggregate impairment of non-current assetsheld for sale totaled RSD 15,465 thousand in 2015 (Note 17).

32. OTHER ASSETS

Other assets comprise:

	December 31, 2015	December 31, 2014
In RSD		
Fee receivables per other assets	132,319	127,075
Inventories	192,934	157,697
Assets acquired in lieu of debt collection	5,252,588	5,484,494
Prepaid expenses	145,942	140,847
Equity investments	1,375,966	1,195,907
Other RSD receivables	2,565,815	1,730,743
	9,665,564	8,836,763
Impairment allowance of:		
Fee receivables per other assets	(68,028)	(61,494)
Assets acquired in lieu of debt collection	(1,450,810)	(475,929)
Equity investments	(448,581)	(448,581)
Other RSD receivables	(596,944)	(546,146)
	(2,564,363)	(1,532,150)

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

	December 31, 2015	December 31, 2014
In foreign currencies		
Other receivables from operations	404,501	1,110,391
Receivables in settlement	298,821	811,922
Other foreign currency receivables	73,133	26,484
	776,455	1,948,797
Impairment allowance of		
Other receivables from operations	(135,724)	(124,244)
Receivables in settlement	(80,003)	(78,951)
	(215,727)	(203,195)
Total	7,661,929	9,050,215

Based on the annual inventory count, the Parent Bank expensed written off inventories of materials totaling RSD 961 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, 2015	December 31, 2014
Balance as at January 1	1,623,216	1,883,399
Current year impairment allowance:		
Charge for the year (Note 14)	1,241,460	446,886
Effects of the changes in foreign exchange rates (Note 14)	8,207	21,921
Reversal (Note 14)	(210,058)	(748,607)
Write-off	(284)	(1,530)
Other	(23,487)	21,147
	2,639,054	1,623,216
Impairment allowance of tools and fixtures (not subject to credit risk)	141,036	112,129
Balance as at December 31	2,780,090	1,735,345

a) Equity Investments

Equity investments in the following entities were recognized within other assets:

	2015	2014
Equity investments in banks and other financial organizations	143,467	143,383
Equity investments in companies and other legal entities	455,922	460,913
Equity investments in non-resident entities abroad	776,577	591,611
	1,375,966	1,195,907
Impairment allowance of:		
Equity investments in banks and other financial organizations	(26,683)	(26,683)
Equity investments in companies and other legal entities	(421,898)	(421,898)
	(448,581)	(448,581)

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moscow in the amount of RSD 78,386 thousand, AIK banka a.d., Beograd in the amount of RSD 60,903 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,294 thousand, Union banka d.d., Sarajevo in the amount of RSD 1,875 thousand and Universal banka (in bankruptcy) in the amount of RSD 9 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 645,590 thousand, MASTER Card in the amount of RSD 130,622 thousand and Montenegro Stock Exchange, Podgorica in the amount of RSD 365 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 50,580 thousand and Politika a.d., Beograd in the amount of RSD 34,353 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

a) Equity Investments (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., Beograd - RSD 19,287 thousand.

b) Other Receivables

Other RSD receivables mostly refer to other receivables from operations totaling RSD 257,492 thousand, advances paid for working capital assets of RSD 99,278 thousand, rental receivables of RSD 373,657 thousand and interest receivables per other assets of RSD 266,295 thousand.

Within other foreign currency receivables the mount of RSD 185,100 thousand refers to the receivables from foreign exchange spot transactions executed by the Parent Bank..

c) Tangible Assets Acquired in Lieu of Debt Collection

Assets acquired in lieu of debt collection totaling RSD 5,252,588 thousand gross, less recorded impairment allowance of RSD 1,450,810 thousand, i.e., with the net book value of RSD 3,801,778 thousand relate to the Group members as follows:

Parent Bank

***I** Properties acquired in lieu of debt collection before 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
I.C.P Kruševac, commercial building	12,836	48,683	08/06/2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,905	24/07/2012
Majur, Tabanovačka, category 4 arable field	1,445 ha	1,656	10/08/2012
Mladenovac, category 3 arable field	16,633	271	25/06/2012
Obrenovac, Mislođin, arable field	10,017	1,068	11/07/2012
Gnjilica, category 7 arable field	2,638	114	15/04/2008
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	110,921	12/01/2009
Residential building, Čačak, at Ratka Mitrovića 6	195	2,433	12/05/2009
Novi Pazar, Kej skopskih žrtava 44, store	82.95	3,019	27/09/2006
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,368	23/12/2009
Tutin, Buče category 4 forest	8,292	336	12/10/2010
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	325	27/09/2012
Budva, category 4 forest	974	4,075	27/05/2011
Prijevor, category 4 forest	1,995	4,795	27/05/2011
Residential building Galathea	925	252,316	21/11/2011
Vranje, field, category 2 vineyard	2,339	1,841	29/11/2013
Prijepolje, Karoševina, saw mill	450	1,097	08/11/2013
Ćuprija, Alekse Šantića 2/24, apartment	72.40	900	15/01/2013
Leskovac, Kralja Petra I, commercial building	335	5,711	04/02/2013
Niš, Ivana Milutinovića 30, business premises	438.39	5,468	23/04/2013
Niš, Triglavska 3/1, apartment	79.80	3,515	04/06/2013
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	26,758	09/07/2013
Mladenovac, field, category 3 forest	1,142	501	18/07/2013
Niš, Bulevar 12. februara, warehouse, ancillary facility	2,062	43,434	31/07/2013
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	24,420	01/10/2013
Total I		**552,930**	

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

Parent Bank (Continued)

II *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
Valjevo, Rađevo selo, warehouse	394	470	11/06/2014
CM Vukovac, CM Milatovac, arable land	132,450	581	16/05/2014
Bor, Nikole Pašića 21, buildings, warehouse, plant	3,823	63,897	08/05/2014
Aleksinac, arable land (fields, vineyards, pastures)	36,787	208	09/07/2014
Subotica, Magnetna 17, production plant, warehouse	2,492	49,542	18/07/2014
Reževići, Montenegro, karst	1,363.20	24,262	22/07/2014
Reževići, Montenegro, category 5 forest	5,638.54	85,821	22/07/2014
Bajina Bašta, Vojvode Mišića 72/1, family house	110,25	2,727	01/08/2014
Mokra Gora, house, meadows pastures, fields	58,400	7,275	31/01/2014
Kopaonik, house and yard	337	8,212	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,222	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,888	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,888	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,777	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,333	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	31,258	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	39,285	31/01/2014
Novi Sad, Tihomira Ostojića 4, business premises no. 7	134	9,661	31/01/2015
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	7,825	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	7,632	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	44,637	31/01/2014
Zrenjanin, Bagljaš, Novosadski put 4, land and building	9,144	37,314	14/08/2014
Beograd, Jurija Gagarina 153a, business premises	30	6,008	27/08/2014
Niš, Ivana Gorana Kovačića 31, residential building	434,58	4,830	17/04/2013
Mladenovac, category 3 and category 4 fields	7,768	257	03/10/2014
Bela Crkva, forest	4,187	85	03/10/2014
Mladenovac, fields, orchards	25,136	546	03/10/2014
Niš, Čajnička bb, residential building	825,74	11,515	14/03/2013
Niš,Sjenička 1, commercial building and warehouse	1,452,73	14,178	14/03/2013
Valjevo, Vojvode Mišića 170, residential building	106.00	1,834	25/09/2014
Beograd, Resavska 29, building	1,680	564,466	03/06/2014
Beograd, Resavska 31, building	3,411	288,314	03/06/2014
Zemun, Cara Dušana 130, factory complex	6,876	206,764	16/06/2014
Valjevo, Radnička 6, apartment	69	2,981	28/05/2015
Niš, Šumadijska 1, business premises	504,60	1,939	04/12/2014
Mionica, Andre Savčić 8, family house	107	1,863	10/09/2015
Prokuplje, Maloplanska 7, land and buildings	490	300	11/06/2012
Sokobanja, land and production plant	5,042	25,347	31/07/2012
Sokobanja, land and guard shack	2,005	728	31/07/2012
Sokobanja, house and land	4,124	9,602	31/07/2012
Sokobanja, arable fields and category 4 orchard	417,908	15,332	31/07/2012
Beograd, B. Pivljanina 83, residential building	278,52	67,320	23/08/2012
Prokuplje, category 3 arable field	12,347	785	28/08/2015
Total II		**1,665,709**	

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

Parent Bank (Continued)

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

Equipment	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	33,705	08/06/2012
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	30,334	31/07/2012
Paraćin, coffee roasting line	6,455	31/12/2012
Vranić, equipment, production line	9,531	09/07/2013
Total III	**80,025**	

***IV** 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*

Equipment	Value	Acquisition Date
Movables (planting machine)	18	08/12/2015
Total IV	**18**	

***V** 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*

Equipment	Value	Acquisition Date
Automobile, Peugeot 406, HDI	60	-
Equipment, inventories of waste materials	2,338	-
Movables (installation materials)	1,704	-
Other	517	-
Total V	**4,619**	
TOTAL (net book value) I + II+ III+ IV+V – Parent Bank	**2,303,301**	

During 2015 the Parent Bank sold 8 properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 139,261 thousand (3 apartments in Novi Beograd, a house in Novi Pazar and land in Novi Pazar, Niš, Tutin and Reževići). The aggregate selling price of the said properties amounted to RSD 145,294 thousand.

The Parent Bank hired an external certified appraiser to perform revaluation of assets acquired in lieu of debt collection the Bank had acquired prior to the past 12-month period.

The negative appraisal effects were recognized within expenses in the total amount of RSD 488,953 thousand (Note 14), as follows: RSD 473,618 thousand as the negative effect arising from the appraised lower market value of properties and RSD 15,335 thousand as the negative effect in accordance with the Bank's internal bylaw due to the Parent Bank's inability to sell the assets during a period of over a year despite the appraised value exceeding the carrying value of such assets.

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

Parent Bank (Continued)

The appraised value of properties acquired in lieu of debt collection is provided below:

Property	Area in m^2	Carrying amount prior to appraisal RSD '000	Appraised amount EUR '000	Appraised amount RSD '000	Difference RSD '000
Residential building Galathea	925	319,214	2,100	252,316	(66,898)
Beograd, Resavska 31, building	3,411	697,131	4,641	564,467	(132,664)
Beograd, Resavska 29, building	1,680	349,686	2,370	288,314	(61,372)
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	81,983	323	39,285	(42,698)
Zemun, Cara Dušana 130, factory complex	6,876	243,235	1,700	206,764	(36,471)
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	60,474	257	31,258	(29,216)
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	71,488	367	44,637	(26,851)
Bor, Nikole Pašića 21, buildings, warehouse, plant	3,823	90,913	527	63,897	(27,016)
Kruševac, movables (machinery, furniture, equipment)	-	45,243	-	33,705	(11,538)
Novi Sad, Tihomira Ostojića 4, business premises no. 7	134	17,664	80	9,661	(8,003)
Mokra Gora, house, meadows pastures, fields	58,400	11,901	60	7,275	(4,626)
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	10,702	65	7,825	(2,877)
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	10,495	63	7,632	(2,863)
Kopaonik, house and yard	337	10,955	68	8,212	(2,743)
Other (55 properties)	-	632,556	-	599,439	(33,117)
TOTAL		**2,653,640**		**2,164,687**	**(488,953)**

The Parent Bank does not hold title deeds for 3 properties and an automobile totaling RSD 10,914 thousand (assets recorded within off-balance sheet items). The Bank's management is undertaking all the necessary actions to sell the acquired assets.

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
Business premises of 224 m² and business premises of 161 m² in Bar	385	24,225	24/03/2015
Total I		**24,225**	

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

Komercijalna banka a.d., Budva (Continued)

Properties acquired in lieu of debt collection in prior periods:

Property	Area in m²	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 buildings of 995 m² and land	1,165	86,841	31/12/2008
Sutomore – hotel of 970 m² and land of 620 m²	1,590	99,316	31/01/2009.
Kotor Pobrđe – non-developed land	31,534	54,732	28/02/2009
Budva – forest	709	21,893	31/03/2009
Reževići – residential facilities	139	29,701	30/06/2009
Podgorica – pasture	375	3,649	31/08/2009
Andrejevica land (12,942 m²) and wood processing plant (3 plant facilities of 1,259 m² and power station of 32 m²)	14,233	11,483	31/10/2009
Danilovgrad – residential buildings of 709m², yard of 500m² and land 16,544m	17,753	31,682	30/11/2009
Petrovac – residential buildings of 252m², business premises 40m² and land of 811m	1,103	54,733	17/12/2009
Reževići – land	547	6,862	17/12/2009
Podgorica – Dajbabe – business premises of 2,370m² and land of 8,879m²	11,249	96,052	28/12/2009
Podgorica – business premises 97m²+ 497m²	594	47,921	27/01/2010
Cetinje – garage of 30 m² and land of 374 m²	404	1,539	25/05/2010
Podgorica – Tološi - residential building of 394m² and land of 61m²	455	3,631	31/07/2010
Podgorica – Tološi – residential building of 500m² and yard of 195 m²	695	40,849	31/07/2010
Kotor – Vranovići –forest and meadows	3,131	2,868	01/08/2010
Budva – residential building t	50	10,460	17/08/2010
Danilovgrad – Spuž – residential premises of 228 m² and land of 1,364 m²	1,592	4,654	31/10/2011
Kotor – land	3,632	5,679	30/11/2011
Podgorica – hotel building of 661m² and land of 264m²	925	64,906	31/12/2011
Rijeka Crnojevića – business premises and 3,309m² and land 43,436m²	46,745	133,789	30/06/2012
Budva – land of 4,426m² and commercial building of 2,868m²	7,294	171,473	17/01/2013
Nikšić – meadows and no category roads of 284 m² and 4th category meadow of 693 m²	977	1,858	28/02/2013
Bar – land of 1,322 m², a house of 150 m² and 2 ancillary buildings (20 m² and 15 m²)	1,507	4,067	28/02/2013
Nikšić – residential premises	65	4,135	30/08/2013
Podgorica – land of 502 m² and a house of 157 m²	659	1,567	01/08/2013
Herceg Novi – development land lot	300	4,622	04/11/2013
Podgorica – development land lot	1,684	14,230	16/01/2014

All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

Komercijalna banka a.d., Budva (Continued)

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

Property	Area in m²	Value in RSD '000	Acquisition Date
Budva – Perezića Do – land of 4,734m², business premises of 164 m², 3 garages of 14m² each, 4 apartments (144 m², 74 m², 89m² and 68 m²)	5,287	231,848	25/01/2014
Budva – Buljarice land of 8,953 m² and business premises of 838 m²	9,791	117,594	25/01/2014
Risan – development land lot	425	4,257	14/04/2014
Kotor – land of 271 m², 2 family houses (60 m² and 36 m²) and an ancillary building (29 m²)	396	3,247	12/08/2014
Bar – forests, arable land and pastures	12,501	10,416	10/12/2014
Podgorica – land of 302 m² and premises construction of 110 m²	412	5,198	22/12/2014
Bar – forests	3,569	82,827	29/12/2014
Total II		**1,474,252**	
TOTAL (net book value) I + II Komercijalna banka a.d.,Budva		**1,498,477**	

The Bank is in possession ogf title deeds for 34 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, 2015 amounted to RSD 1,166,868 thousand (EUR 9,594 thousand). The Bank's management is undertaking all the necessary measures to realize the sale of the assets acquired.

The Bank hired external certified appraisers to perform reappraisal of the assets acquired in lieu of debt collection prior to the previous 12-month period. The negative appraisal effect was recognized within expenses for the year in the amount of RSD 507,883 thousand (EUR 4,175 thousand) as follows: RSD 458,090 thousand (EUR 3,766 thousand) as a negative effect of the appraised market value below the carrying amount, and RSD 49,793 thousand (EUR 409 thousand) as an adjusting factor for inability to become vest in property.

The appraised value of properties acquired in lieu of debt collection is provided below:

Property	Area in m²	Carrying amount prior to appraisal RSD '000	Appraised amount EUR '000	Appraised amount RSD '000	Difference RSD '000
Land and business premises in Budva	5,777+1,344	280,241	1,410	171,474	(108,767)
Land, business premises, 3 garages and 4 apartments in Perazića Do	4,734+581	327,298	1,906	231,848	(95,450)
Land and business premises in Buljarice – Budva	8,953+838	183,555	967	117,594	(65,961)
8 sets of business premises at Stari aerodrom in Podgorica	497+97	91,134	394	47,921	(43,213)
Land and business premises in Rijeka Crnojevića	46,799+ 3,309	182,651	1,100	133,789	(48,862)
Land and ancillary facitities in Tološi – Podgorica	455+394	32,097	30	3,631	(28,466)
House and yard in Tološi – Podgorica	383+500	56,435	336	40,849	(15,586)
Land in Reževići – Budva	547	17,757	56	6,862	(10,895)
Forests in Sutomore – Bar	3,569	93,652	681	82,827	(10,825)
Other (38 properties)	-	741,542	5,440	661,684	(79,858)
TOTAL		**2,006,362**	**12,320**	**1,498,479**	**(507,883)**

All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2015	December 31, 2014
Demand deposits	2,542,288	6,685,766
Term deposits	2,549,287	2,035,754
Borrowings	13,774,098	17,620,512
Expenses deferred at the effective interest rate (deductible item)	(111,736)	(145,905)
Other	14,789	51,637
Balance at December 31	**18,768,726**	**26,247,764**

Short-term RSD deposits placed by banks were deposited for periods of up to one year at interest rates ranging from 2.55 % to 5.5% per annum. In 2015 the Group had no liabilities per long-term foreign currency deposits placed by banks.

Decrease in RSD transaction deposits mainly relates to the withdrawal of demand deposits of Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 4,740,993 thousand from the Parent Bank.

Within borrowings the Group recognized total liabilities for foreign lines of credit due to non-residents and ex-territorial organizations which are treated as banks for the purposes of preparation of the statement of financial position.

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, 2015	December 31, 2014
EFSE fond	5,203,165	5,926,957
GGF	1,199,233	1,987,345
FMO	2,027,102	2,419,166
IFC	1,824,391	1,814,374
EBRD	3,301,280	4,319,939
Balance at December 31	13,555,171	16,467,781

The line of credit agreements executed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by the line of credit 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, 2015, the Parent Bank was in full compliance with all the contractually defined financial ratios toward the aforelisted foreign creditors.

During 2015, per line of credit obtained EBRD the Bank repaid the principal amount of EUR 8,571 thousand, or RSD 1,028,703 thousand in RSD equivalent.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

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, 2015	December 31, 2014
EFSE	218,927	290,300
Investment and Development Bank	-	862,431
Balance as at December 31	218,927	1,152,731

The borrowings presented in the table above mature for repayment from 2016 to 2021.

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, 2015, the Bank was in full compliance with all the contractually defined financial ratios.

A long-term loand the Bank obtained from the Investment and Development Bank was reclassified to the line item of deposits and other liabilities due to customers in accordance with the adopted methodology of the National Bank of Serbia (Note 34).

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

	December 31, 2015	December 31, 2014
Corporate customers		
Demand deposits	53,486,089	56,393,521
Revocable deposits	43,530	34,015
Other and overnight deposits	15,932,112	25,385,229
Borrowings	13,077,761	13,401,184
Earmarked deposits	7,412,678	8,236,245
Deposits for loans approved	858,852	740,766
Interest payable, accrued interest liabilities and other financial liabilities	784,503	756,540
Retail customers		
Demand deposits	23,317,440	18,419,490
Revocable deposits	67,426	5,703
Savings deposits	196,568,930	189,779,273
Earmarked deposits	2,790,869	2,203,038
Deposits for loans approved	1,797,519	1,644,021
Interest payable, accrued interest liabilities and other financial liabilities	2,482,037	3,600,761
Other deposits	714,876	494,422
Balance as at December 31	319,334,622	321,094,208

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 Parent Bank's Decision on Interest Rates for 2015, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate applied thereto equaled 0.1% p.a. for deposits with average monthly balances of over RSD 50 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

Corporate Customers' Deposits (Continued)

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

In 2015 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 for 3 to 14 days and the key policy rate less 2.05 percentage points for deposits placed for up to a year. Short-term deposits of entrepreneurs were placed at interest rates from 1% to 2.95% annually for the minimum deposited amounts of RSD 300 thousand.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging from 0.5% to 3% annually.

Long-term RSD deposits of corporate customers were placed at an interest rate set at the National Bank of Serbia key policy annual rate decreased by 1.85 to 1.7 percentage points, while foreign currency deposits accrued interest at the annual rates from 1% to 2.4% annually for EUR deposits and from 1.3% to 4.2% annually for other currencies.

Short-term deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 0.1% to 0.3% per annum.

Long-term deposits of corporate customers indexed to EUR exchange rate were placed at the annual interest rate of 0.5%.

Retail Customers' 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 of 0.05% and 0.1% to 0.5% for EUR and other currencies per annum.

In 2015 short-term RSD deposits of retail customers were placed at interest rates ranging from 2% to 4.5% annually and those in foreign currencies at rates from 0.05% to 3.3% and from 0.05% to 2% annually for EUR and other currencies, respectively.

Long-term RSD deposits of retail customers accrued interest at the rates between 4.75% and 5% annually, while annual interest rates from 1% to 5.3% and from 1% to 2.5% annually for EUR and other currencies, respectively.

Within the line item of borrowings the Bank recognized total liabilities per foreign lines of credit due to non-residents defined as customers for the purposes of preparation of the statement of financial position.

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, 2015	December 31, 2014
LEDIB 1 and 2 (Kingdom of Denmark)	39,696	19,602
Republic of Italy Government	649,398	798,788
European Investment Bank (EIB)	5,852,951	5,629,831
European Agency for Reconstruction (EAR)	280,630	197,913
KfW	4,865,044	6,047,916
Balance at December 31	11,687,719	12,694,050

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

All amounts expressed in thousands of RSD, unless otherwise stated.

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

The line of credit agreements executed by the Parent Bank and the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by the line of credit 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 line of credit agreements executed with 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, 2015, the Parent Bank was in full compliance with all the contractually defined financial ratios toward the aforesaid foreign creditor.

Breakdown of the 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, 2015	December 31, 2014
European Investment Bank (EIB)	495,192	589,672
Montenegro Government - Project 1000+	55,482	55,177
Montenegro Development Fund	25,500	62,285
Balance at December 31	576,174	707,134

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.

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

	December 31, 2015	December 31, 2014
Republic of Srpska Investment and Development Bank (Note 33)	813,868	-
Balance at December 31	813,868	-

The above presented long-term borrowings mature in the period from 2016 to 2035.

Pursuant to the loan agreements with the Republic of Srpska Investment and Development Bank, Komercijalna banka a.d., Banja Luka was not obligated to comply with any financial covenants.

35. SUBORDINATED LIABILITIES

	December 31, 2015	December 31, 2014
Foreign currency subordinated liabilities	6,081,305	6,047,915
Other liabilities (accrued interest liabilities)	13,532	14,077
Expenses deferred at the effective interest rate (deductible item)	(16,875)	(25,312)
Balance as at December 31	6,077,962	6,036,680

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 6,081,305 thousand, i.e., EUR 50,000 thousand as of December 31, 2015. The loan matures for repayment at December 15, 2017.

All amounts expressed in thousands of RSD, unless otherwise stated.

36. PROVISIONS

Provisions relate to the following:

	December 31, 2015	December 31, 2014
Provisions for off-balance sheet items (Note 14)	575,406	600,829
Provisions for litigations (Note 39.4)	1,204,790	774,055
Provisions for employee benefits in accordance with IAS 19	432,532	357,185
Balance at December 31	2,212,728	1,732,069

Movements on the accounts of provisions are provided below:

	2015				2014			
	Provisions for Off- Balance Sheet Items (Note 14)	**Provisions for Litigations (Note 39.4)**	**Provisions for Employee Benefits (IAS 19)**	**Total**	**Provisions for Off- Balance Sheet Items**	**Provisions for Litigations**	**Provisions for Employee Benefits (IAS 19)**	**Total**
Balance, January 1	600,829	774,055	357,185	1,732,069	486,989	13,622	334,700	835,311
Charge for the year	647,438	444,400	41,634	1,133,472	579,588	760,490	37,556	1,377,634
Provisions against actuarial gains within equity	-	-	39,843	39,843	-	-	20,451	20,451
Release of provisions	-	(13,725)	(6,422)	(20,147)	-	(349)	(6,752)	(7,101)
Reversal of provisions	(673,059)	-	-	(673,059)	(467,046)	-	(31,781)	(498,827)
Other	198	60	292	550	1,298	292	3,011	4,601
Balance at December 31	575,406	1,204,790	432,532	2,212,728	600,829	774,055	357,185	1,732,069

a) Parent Bank's Provisions for Litigations

Provisions for litigations were recognized based on the estimated future outflows in the amount of lawsuit claims, including interest and court expenses.

The most significant provisions relate to:

Provisions for the arrangement with Intereksport a.d., Beograd (in bankruptcy) – per secured letters of credit issued in 1991 totaling RSD 947,664 thousand – this legal suit was split into two separate cases – lawsuits regarding the settlement of a liability of Intereksport a.d., Beograd (in bankruptcy) by the Republic of Serbia, as follows:

- Lawsuit filed by the Republic of Serbia with the claim amount of USD 4,773 thousand for principal and USD 844 thousand for interest; and
- Lawsuit filed by Intereksport a.d., Beograd (in bankruptcy) with the claim amount of USD 1,948 thousand for principal and USD 881 thousand for interest.

Provisions for three new legal suits involving Dam Mont industrija d.o.o., Dvorište with the claim of RSD 34,764 thousand, Mr. Danilo Tomić with the claim of RSD 7,508 thousand and RS Privatization Agency (the case of Vektra M d.o.o., Beograd) with the claim of RSD 201,617 thousand for interest.

Additional information on the legal suit against RS Privatization Agency (the case of Vektra M d.o.o., Beograd):

At the proposal of the Privatization Agency dated May 15, 2015, the Commercial Court of Belgrade enacted a writ of execution no. Iv 3750/15 on May 20, 2015, whereby the Bank was obligated to pay the amount of RSD 196,523 thousand with the related interest accrued from July 4, 2007 up to the payment date as well as the court expenses.

The subject of the dispute is a performance guarantee of EUR 2,471 thousand issued under the Agreement on the Sale of Socially Owned Capital of DP Župa, executed on January 13, 2004 by and between the Republic of Serbia Privatization Agency and Vektra M d.o.o., Beograd.

All amounts expressed in thousands of RSD, unless otherwise stated.

36. PROVISIONS (Continued)

a) Parent Bank's Provisions for Litigations (Continued)

The Bank received the aforesaid writ of execution on May 25, 2015 and filed an appeal to it, the case became a lawsuit.

The Bank made a provision for the amount of the guarantee from the said lawsuit (provisions for losses per off-balance sheet items) of RSD 260,686 thousand, while the interest accrued up to and inclusive of December 31, 2015 amounting to RSD 201,617 thousand was recognized within provisions for litigations.

b) Provisions for Employee Benefits

Provisions for employee retirement benefits were made based on the report of an independent actuary as of the reporting date and were stated in the amount of the present value of expected future payments to employees.

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

	December 31, 2015	December 31, 2014
Parent Bank		
Discount rate	5.25%	8.75%
Salary growth rate within the Bank	2.00%	2.50%
Employee turnover rate	5.00%	5.00%

The discount rate applied was calculated as the average of the two rates – the National Bank of Serbia key policy rate for 2015 and derived interest rate on investment in the Government securities with similar maturities, which, due to the decrease in the discount rate, mostly gave rise to the increase in provisions in 2015.

Komercijalna banka a.d., Budva

Discount rate	5%	8%
Salary growth rate within the Bank	2%	3%
Employee turnover rate	5%	5%

The discount rate equaled the average of the interest rate applied to long-term Government bonds and the rate on corporate long-term loans in Montenegro.

Komercijalna banka a.d., Banja Luka

Discount rate	5%	8.5%
Salary growth rate within the Bank	2%	4%
Employee turnover rate	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	5.25%	8.75%
Salary growth rate within the Bank	2%	4%
Employee turnover rate	5%	5%

The discount rate applied was calculated as the average of the two rates – the National Bank of Serbia key policy rate for 2015 and derived interest rate on investment in the Government securities with similar maturities, which, due to the decrease in the discount rate, mostly gave rise to the increase in provisions in 2015.

All amounts expressed in thousands of RSD, unless otherwise stated.

37. OTHER LIABILITIES

Other liabilities include:

	December 31, 2015	December 31, 2014
Trade payables	220,334	227,345
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	271,753	272,968
Advances received	54,372	75,977
Deferred interest, fee and commission income	107,971	230,560
Accrued liabilities and other accruals	243,589	247,790
Liabilities in settlement	1,307,290	1,756,825
Dividend payment liabilities	2,586,715	277,367
Taxes and contributions payable	69,667	64,864
Other liabilities	158,275	161,246
Balance at December 31	5,019,966	3,314,942

Liabilities in settlement totaling RSD 1,307,290 thousand mostly, in the amount of RSD 729,757 thousand and RSD 185,016 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 of the Parent Bank totaling RSD 2,586,715 thousand refer to:
- preferred and convertible share dividend in the amount of RSD 152,413 thousand;
- ordinary share dividend in the amount of RSD 1,934,065 thousand; and
- tax liabilities to employees in the amount of RSD 500,237 thousand.

Pursuant to the Decision of the Parent Bank's Shareholder Assembly no. 9200/2-3 dated June 4, 2015, the Bank made the following allocation for the 2014 profit distribution:
- ordinary share dividend in the amount of RSD 1,934,065 thousand;
- preferred share dividend in the amount of RSD 28,686 thousand; and
- tax liabilities to employees in the amount of RSD 347,000 thousand.
  However, the payment per Decision on profit distribution is restricted and conditioned by the fulfillment of the requirement prescribed by Article 25 of the Law on Banks.

In 2015 the parent Bank made no payments for distribution of the 2014 profit due to the aforesaid restriction.

38. EQUITY

38.1. Equity Structure

	December 31, 2015	December 31, 2014
Issued (share) capital	17,191,528	17,191,528
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	25,737,160	21,117,846
Revaluation reserves	4,545,832	4,022,299
Retained earnings	195,933	6,925,972
Current year's loss	(7,200,447)	-
Balance at December 31	63,313,090	72,100,729

All amounts expressed in thousands of RSD, unless otherwise stated.

38. EQUITY (Continued)

38.1. Equity Structure (Continued)

Equity Structure	December 31, 2015 Majority Interest	December 31, 2015 Non-Controlling Interests	December 31, 2015 Total	December 31, 2014 Majority Interest	December 31, 2014 Non-Controlling Interests	December 31, 2014 Total
Share capital	17,191,466	62	17,191,528	17,191,466	62	17,191,528
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**	**62**	**40,034,612**
Retained earnings	195,933	-	195,933	6,925,972	-	6,925,972
Current year's loss	(7,200,445)	(2)	(7,200,447)	-	-	-
Reserves from profit and other reserves	25,737,155	5	25,737,160	21,117,841	5	21,117,846
Revaluation reserves	2,975,960	-	2,975,960	2,444,131	-	2,444,131
Revaluation reserves (debit balance)	(270,108)	-	(270,108)	(237,874)	-	(237,874)
Translation reserves (Note 38.4)	1,839,980	-	1,839,980	1,816,042	-	1,816,042
Reserves	**30,282,987**	**5**	**30,282,992**	**25,140,140**	**5**	**25,140,145**
Equity	**63,313,025**	**65**	**63,313,090**	**72,100,662**	**67**	**72,100,729**

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, 2015 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 type	Share Count December 31, 2015	Share Count December 31, 2014
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

All amounts expressed in thousands of RSD, unless otherwise stated.

38. EQUITY (Continued)

38.1. Equity Structure (Continued)

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2015 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
East Capital (LUX)-Balkan Fund	245,106	1.46
Invej d.o.o., Beograd	230,000	1.37
Evropa osiguranje a.d., Beograd in bankruptcy	173,420	1.03
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit Bank, a.d., Srbija (custody account)	126,779	0.75
Stankom co. d.o.o., Beograd	117,535	0.70
East Capital (LUX) Eastern Europe	87,418	0.52
Erste Bank a.d., Novi Sad	86,601	0.51
Others (1,138 shareholders)	1,262,251	7.51
	16,817,956	100.00

The structure of the Parent Bank's shareholders with preferred shares at December 31, 2015 was as follows:

Shareholder	Share Count	% Interest
A private individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (619 shareholders)	270,280	72.37
	373,510	100.00

In 2015 prior years' dividends on preferred shares were paid in the amount of RSD 172 thousand for 2009, 2010 and 2013 dividends (2014: RSD 485,172 thousand).

In 2015 the Parent Bank made no 2014 dividend payments. The total amount of dividend payment liabilities determined by the 2014 profit distribution relates to the following:

- dividend on preferred shares: RSD 28,686 thousand and
- dividend on ordinary (common stock) shares: RSD 1,934,065 thousand.

Preferred share dividend to be paid per 2015 Annual Accounts was calculated based on the interest rate applied to RSD term savings deposits placed for a period of 12 months and amounted to RSD 23,530 thousand (Note 41).

38.2. Earnings per Share

Basic earnings per share are calculated by dividing the profit/(loss) attributable to the shareholders (of the parent entity) by the weighted average number of ordinary shares outstanding over the year.

	2015	2014
(Loss)/profit adjusted for preferred share dividend	(6,323,162)	4,246,824
Weighted average number of shares outstanding	16,817,956	16,817,956
Basic earnings per share (in RSD)	(376)	253

All amounts expressed in thousands of RSD, unless otherwise stated.

38. EQUITY (Continued)

Basic EPS for 2015 amounted to RSD (376) or (37.60%) na of the ordinary share par value, while the basic EPS for 2014 amounted to RSD 253 or 25.25% the ordinary share par value. Negative earnings per share in 2015 as compared to 2014 resulted from the Parent Bank's current operating loss stated in the amount of RSD 6,414,158 hiljada dinara.

Diluted earnings per share for 2015 amounted to RSD (376) or (37.60%) na of the ordinary share par value, while the basic EPS for 2014 amounted to RSD 253 or 25.25% the ordinary share par value.

38.3. Tax effects related to the other comprehensive income for the year:

	2015			2014		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities available for sale	697,562	(98,403)	599,159	748,153	(220,513)	527,640
Net decease due to actuarial losses	(39,843)	5,657	(34,186)	(20,451)	3,476	(16,975)
Valuation of property	(234)	(71)	(305)	(3,472)	634	(2,838)
Decrease due to fair value adjustments of equity investments and securities available for sale	(31,713)	(385)	(32,098)	(91,445)	40,611	(50,834)
Increase in positive cumulative foreign exchange differences on translation of foreign operations	23,939	-	23,939	374,967	-	374,967
Total	649,711	(93,202)	556,509	1,007,752	(175,792)	831,960

38.4. Cumulative foreign exchange differences on translation of foreign operations:

	Cumulative foreign exchange gains on interests held in subsidiaries (Note 25)	Cumulative foreign exchange gains/(losses) on intragroup transactions	Cumulative foreign exchange gains/(losses) on translation of the income statement profit from the average to the closing date exchange rate	Total (Note 38.1)
Balance at January 1, 2014	**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**
Increase	38,768	(9,493)	(5,337)	23,938
Balance at December 31, 2015	**1,720,563**	**60,562**	**58,855**	**1,839,980**

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2015	December 31, 2014
Managed funds	4,488,679	5,542,251
Commitments	30,505,938	34,895,350
Other off-balance sheet items	586,833,057	376,545,018
Total	621,827,674	416,982,619

All amounts expressed in thousands of RSD, unless otherwise stated.

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

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, 2015	December 31, 2014
Payment guarantees (Note 4.1.1.)	5,337,033	5,547,353
Performance guarantees (Note 4.1.1.)	6,756,946	8,138,838
Letters of credit	54,165	27,709
Acceptances of bills of exchange	-	27,185
Balance as at December 31	12,148,144	13,741,085

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

39.2 The breakdown of commitments is provided below:

	December 31, 2015	December 31, 2014
Unused portion of approved payment and credit card loan facilities and account overdrafts	9,116,540	9,316,139
Irrevocable commitments for undrawn loans	8,473,442	8,066,911
Other irrevocable commitments	767,812	527,568
Other commitments per contracted value of securities	-	3,243,647
Balance as at December 31	18,357,794	21,154,265

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 200 thousand.

39.3 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 totaling RSD 4,488,679 thousand are mostly comprised of assets for consignment loans of the Republic of Serbia, the largest portion of which, in the amount of RSD 3,671,545 thousand, relates to the long-term housing loans extended to retail customers. Other managed funds mostly refer to loans approved for agriculture financed by competent RS Ministries.

Within other off-balance sheet assets totaling RSD 586,833,057 thousand the Group, among other things, recorded tangible assets acquired in lieu of debt collection, collaterals securitizing loans and receivables in the amount of RSD 332,050,392 thousand, par value of securities involved in custody operations for the Group's clients in the amount of RSD 110,525,635 thousand, par value of securities within the Group's portfolio in the amount of RSD 131,854,566 thousand, repo investments in Treasury bills in the amount of RSD 1,200,000 thousand 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 Parent Bank bears 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.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

39.4 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 1,204,790 thousand (Note 36).

As of December 31, 2015 contingent liabilities based on legal suits filed against the Group members – claim prinicipal amounts – were estimated as totaling RSD 3,476,080 thousand (for 345 active cases). predmeta). Contingent liabilities of the Group members per interest and fees in respect of legal suits filed against them (115 cases) were estimated as totaling RSD 1,921,956 thousand. The Group's management anticipates no materially significant losses arising in the forthcoming period from the outcome of legal suits in excess of the provisions made (Note 36).

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 114,858,920 thousand (for 866 cases with the largest individual claim amounts). The Group members' management anticipates favorable outcome of the most lawsuits.

39.5 Commitments per operating lease liabilities are provided below:

	December 31, 2015	December 31, 2014
Commitments due within one year	503,156	541,689
Commitments due in the period from 1 to 5 years	1,692,621	1,361,886
Commitments due in the period longer than 5 years	134,270	240,975
Total	2,330,047	2,144,550

39.6 Taxation Risks

The tax legislations of the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of ongoing reviews and changes occur frequently. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Group's management believes that the tax liabilities of the Group members recorded in these financial statements are appropriately stated.

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 is the Parent Bank for 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 that are under joint control of the same parent entity. The Parent Bank discloses transactions with the Group's related parties according to the methodology of the National Bank of Serbia.

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.

Consolidated transactions performed with subsidiaries are presented in Note 6.1.

All amounts expressed in thousands of RSD, unless otherwise stated.

40. RELATED PARTY DISCLOSURES (Continued)

40.2. LOANS AND RECEIVABLES FROM AND LIABILITIES TO OTHER RELATED PARTIES

	2015			2014		
Loans and receivables	**On-Balance**	**Off-Balance**	**Total**	**On-Balance**	**Off-Balance**	**Total**
Lasta d.o.o., Sombor	1,003	-	1,003	4,065	-	4,065
VIŠ trade d.o.o., Vršac	1,757	919	2,676	970	1,331	2,301
DESK d.o.o., Beograd	-	-	-	1	20	21
FUTURA Fakultet za primenjenu ekologiju Beograd		-	-	98	1,804	1,902
Saša Ristić, Attorney at Law, Kruševac	-	-	-	5	-	5
MEPLAST d.o.o., Kruševac	132	-	132	665	-	665
MENTA d.o.o., Niš	-	6,000	6,000	1	6,000	6,001
Private individuals	87,678	17,140	104,818	662,834	90,004	752,838
Total	**90,570**	**24,059**	**114,629**	**668,639**	**99,159**	**767,798**

Liabilities	**Depoziti**	**Primljeni krediti**	**Ukupno**	**Depoziti**	**Primljeni krediti**	**Ukupno**
Lasta d.o.o., Sombor	1,630	-	1,630	2,458	-	2,458
VIŠ trade d.o.o., Vršac	6	-	6	11	-	11
DESK d.o.o., Beograd	-	-	-	1	-	1
FUTURA Fakultet za primenjenu ekologiju Beograd	-	-	-	853	-	853
Saša Ristić, Attorney at Law, Kruševac	1	-	1	3	-	3
MEPLAST d.o.o., Kruševac	1,240	-	1,240	1,422	-	1,422
MENTA d.o.o., Niš	516	-	516	1,233	-	1,233
ABD COMPANY d.o.o., Beograd – in liquidation	12	-	12			
Amfibija	4	-	4	-	-	-
JOY M&M d.o.o., Beograd	26	-	26	-	-	-
Nova pekara d.o.o., Užice	788	-	788	-	-	-
Vladan Perišić Entrepreneur, Zrenjanin	22	-	22	-	-	-
MM Energo 2010 d.o.o., Užice	14	-	14	-	-	-
EBRD (Note 33)	-	3,301,280	3,301,280	-	4,391,939	4,391,939
International Finance Corporation	-	7,905,696	7,905,696	-	7,862,290	7,862,290
Others – entrepreneurs	13	-	13	-	-	-
Private individuals	339,527	-	339,527	418,471	-	418,471
Total	**343,799**	**11,206,976**	**11,550,775**	**424,452**	**12,254,229**	**12,678,681**

All amounts expressed in thousands of RSD, unless otherwise stated.

40. RELATED PARTY DISCLOSURES (Continued)

40.2. INCOME AND EXPENSES FROM/TO OTHER RELATED PARTIES

	2015		
	Interest	**Fees and Commissions**	**Total**
Income			
Lasta d.o.o., Sombor	259	212	471
VIŠ trade d.o.o., Vršac	59	88	147
DESK d.o.o., Beograd	-	33	33
Saša Ristić, Attorney at Law, Kruševac	-	6	6
MEPLAST d.o.o., Kruševac	43	46	89
MENTA d.o.o., Niš	-	308	308
Private individuals	7,013	5,530	12,543
Nova pekara d.o.o., Užice	-	150	150
Goran Damnjanović Entrepreneur, Kruševac	-	18	18
Vladan Perišić Entrepreneur, Zrenjanin	-	4	4
Others	-	23	23
Total income	**7,374**	**6,418**	**13,792**
Expenses	**Interest**	**Fees and Commissions**	**Total**
Lasta d.o.o., Sombor	-	37	37
VIŠ trade d.o.o., Vršac	-	63	63
EBRD	136,345	-	136,345
International Finance Corporation	371,601	585	372,186
Saša Ristić, Attorney at Law, Kruševac	-	35	35
MEPLAST d.o.o., Kruševac	-	31	31
Goran Damnjanović Entrepreneur, Kruševac	-	30	30
JOY M&M d.o.o., Beograd	-	31	31
Nova pekara d.o.o., Užice	-	31	31
Vladan Perišić Entrepreneur, Zrenjanin	-	34	34
Dragoljub Zumberović, Entrepreneur, Užice	-	34	34
Private individuals	12,306	6,048	18,354
Total expenses	520,252	6,959	527,211
Expenses, net	**(512,878)**	**(541)**	**(513,419)**

Note: Income and expenses from/to other related parties were not disclosed in the 2014 financial statements.

40.3 Gross and net remunerations paid to the members of the Executive Boards, Boards of Directors and Audit Committees of the Group members were as follows:

	December 31, 2015	**December 31, 2014**
Gross remunerations		
Executive Boards	162,998	128,529
Net remunerations		
Executive Boards	130,297	98,218
Gross remunerations		
Board of Directors and Audit Committees	49,700	50,044
Net remunerations		
Board of Directors and Audit Committees	33,113	33,376

40. RELATED PARTY DISCLOSURES (Continued)

In 2015 there were changes in the members of the Executive Board of the Parent Bank and Executives of Komercijalna banka a.d. Budva and contractually agreed consensual tenure termination benefits were paid (with the treatment as salaries), which directly affected increase in the above stated gross and net remunerations year on year.

As of December 31, 2015 the aggregate balance of loans approved to the members of the Executive Board, Board of Directors and Audit Committee amounted to RSD 127,160 thousand (2014: RSD 125,331 thousand).

41. EVENTS AFTER THE REPORTING PERIOD

Parent Bank:

At its session held on January 27, 2016, the Bank's Shareholder Assembly enacted Decision on relief and appointment of a member and President of the Bank's Board of Directors, at the proposal of the Government of the Republic of Serbia. This Decision became effective at the date of adoption by the Bank's Assembly but not before an approval of the National Bank of Serbia was obtained, which was on January 28, 2016.

Under the Decision of the Bank's Board of Directors and based on the approval obtained from the National Bank of Serbia, on January 29, 2016, a new member of the Executive Board was appointed CFO.

Under the Decision of the Bank's Board of Directors (effective as from February 3, 2016), two members of the Executive Board were relieved.

In respect of the customer RRTU Euro-Kop-Company, in the bankruptcy proceedings instigated over its guarantor VP Južna Morava, the Bank was contested its claims and security rights (collateral located in Niš with the appraised value of EUR 520,000). On January 12, 2016 the Bank filed a lawsuit for recognition of its claims and security rights.

On February 19, 2016 the Bank collected receivables from the bankruptcy debtor Stevanović-Invest d.o.o., Kruševac in Bankruptcy in the amount of RSD 146,259 thousand through an auction mortgage sale.

Komercijalna banka a.d., Budva:

In order to address a single entity exposure ratio and reconcile it with the limit prescribed by the Central Bank of Montenegro, the Bank sold bonds issued by the Republic of Serbia totaling RSD 837,152 thousand (EUR 6,883 thousand) and purchased bonds of the Republic of Montenegro in the amount of RSD 723,310 thousand (EUR 5,947 thousand).

On January 20, 2016 the Bank received the final ruling of the Supreme Court of Montenegro for damage compensation totaling RSD 59,964 thousand (EUR 493 thousand) with the related interest per the legal suit filed against the Bank by the plaintiffs GORANOVIĆ d.o.o., Podgorica and MI STADION d.o.o., Nikšić.

All amounts expressed in thousands of RSD, unless otherwise stated.

41. EVENTS AFTER THE REPORTING PERIOD (Continued)

Komercijalna banka a.d., Banja Luka:

There have been no events from the balance sheet date up to these financial statements' issue date that would require any adjustments to or additional disclosures in the financial statements of Komercijalna banka a.d., Banja Luka.

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

On February 26, 2016, the Company sold its entire portfolio of securities held to maturity in the secondary market –11,000 bonds issued by the Republic of Serbia totaling RSD 98,404 thousand and realized a gain on the sale of RSD 22,941 thousand.

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual asset/liability count performed as of December 31, 2015, the Parent Bank had unreconciled outstanding item statements totaling RSD 16,851 thousand. Statements unreconciled with 31 customers mostly relate to the clients contesting the amount or the manner of calculation of interest and fees and rentals.

Komercijalna banka a.d., Banja Luka and KomBank INVEST a.d., Beograd had no unreconciled outstanding item statements.

Komercijalna banka a.d., Budva had 4 unreconciled outstanding item statements amounting to RSD 46 thousand.

Unrealized Dividends

Unrealized dividends payable in 2016 amount to:

- for 2014: RSD 1,934,065 thousand for preferred shares and RSD 28,686 thousand for priority shares (6.29% of the par value of priority shares; at November 24, 2014, shares at the rate of 6.29% were converted into ordinary shares) (Note 38.1);
- for 2013: RSD 123,727 thousand (9.91% of the par value of preferred convertible shares).

Contingent liabilities for preferred/priority dividend payment based on the calculation made for 2015 amount to RSD 23,530 thousand (Note 38.1).

42. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) as of December 31, 2015 and 2014 were as follows:

	Middle exchange rate of the National Bank of Serbia		Average exchange rate of the National Bank of Serbia	
	2015	**2014**	**2015**	**2014**
USD	111.2468	99.4641		
EUR	121.6261	120.9583	120.7441	117.2478
CHF	112.5230	100.5472		
BAM	62.1864	61.8450	61.7355	59.9478

In Belgrade on April 6, 2016

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

Jelena Đurović	Alexander Picker
Executive Board Member	Executive Board Chairman

2015 ANNUAL REPORT OF KOMERCIJALNA BANKA GROUP

CONTENTS

Consolidated financial statements of the banking group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies EUR, used in the financial statements of Komercijalna banka a.d., Budva, and BAM, used in the financial statements of Komercijalna banka a.d., Banja Luka, have been converted to the dinar (RSD) as the Parent Bank's reporting currency based on the officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been classified based on the average official exchange rate in the Republic of Serbia for 2015 of RSD 120.7441 for EUR 1 and RSD 61.7355 for BAM 1 respectively, while other consolidated financial statements (Balance Sheet, Statement of Changes in Equity and Statement of Other Income) have been classified based on the closing exchange rate on the dates of those statements, which were RSD 121.6261 for EUR 1 and RSD 62.1864 for BAM 1 respectively.

Any transactions in foreign currency have been translated into dinars at the middle exchange rate in the interbank foreign exchange market as at the date of the relevant transaction.

The assets and liabilities presented in foreign exchange as at the date of the Consolidated Balance Sheet been translated into dinars at the middle exchange rate in the interbank foreign exchange market as at that date.

1. BASIC INDICATORS OF GROUP'S OPERATIONS

DESCRIPTION	2015	2014	INDICES 2015/2014	2013	2012	2011
in RSD thousand and as a percentage						
Earnings before tax	(7,131,831)	4,792,801	(1.4)	4,400,642	4,424,450	3,987,990
Net interest income	14,601,100	14,436,051	1.0	14,128,460	12,133,439	10,930,909
Net commission income	5,190,282	4,983,940	1.0	4,829,281	4,830,274	4,668,720
PROFITABILITY PARAMETERS						
ROA	(1.7%)	1.2%	-	1.2%	1.4%	1.4%
ROE (on share capital)	(17.8%)	12.0%	-	11.0%	12.9%	14.0%
ROE (on total capital)	(10.5%)	6.9%	-	6.8%	8.2%	9.0%
Net interest margin on total assets	3.5%	3.5%	-	3.9%	3.5%	3.7%
Cost / income ratio	61.1%	61.6%	-	59.8%	64.6%	64.2%
Operating expenses	12,092,310	11,953,592	1.0	11,327,317	10,963,873	10,014,240
Net loan impairment expense	13,807,580	2,821,458	4.8	3,359,720	1,946,369	1,488,299
Consolidated balance sheet assets	414,878,533	430,702,109	1.0	384,296,023	342,267,358	292,679,098
Off-balance sheet operations	621,827,674	416,982,422	1.5	227,797,499	207,913,711	186,996,187
Loans and receivables	197,271,553	239,562,636	0.8	231,234,880	217,721,333	169,380,487
Deposits and other liabilities	338,103,348	347,341,972	1.0	306,302,650	269,884,506	219,922,916
RETAIL						
Loans	64,240,714	62,409,233	1.0	73,125,444	66,301,426	57,293,037
Deposits	227,739,097	216,146,708	1.1	194,795,589	168,251,976	145,353,867
CORPORATE						
Loans	115,181,942	141,419,415	0.8	134,831,909	143,090,089	120,060,887
Deposits	91,595,525	104,947,500	0.9	88,279,688	69,645,451	63,107,566
Gross loans/deposits	68.13%	71.1%	-	79.7%	82.8%	80.6%
Net loans/deposits	56.19%	69.0%	-	73.8%	77.6%	77.6%
CAPITAL	63,313,090	72,100,729	0.9	67,041,696	62,073,150	46,044,022
Capital adequacy	23.1%	18.7%	-	19.9%	22.4%	18.3%
Number of employees	3,148	3,178	1.0	3,233	3,254	3,282
Assets per employee *(stated in RSD thousand)*	131,791	135,526	1.0	118,867	105,184	89,177
Assets per employee *(stated in EUR thousand)*	1,084	1,120	1.0	1,039	927	852

2. OPERATIONS AND ORGANISATIONAL STRUCTURE

The Banking Group consists of three banks (the parent bank and two subsidiaries) and one investment fund management company.

The Parent Bank, Komercijalna banka ad Beograd, performs the following operations within the framework of its registered business activity:

- Deposit operations (receiving and making deposits),
- Loan operations (granting and receiving loans),
- Foreign currency and money exchange operations;
- Payment operations;
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuing of guarantees, acceptances and other forms of surety (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agent operations, with prior approval from the National Bank of Serbia;
- Other operations it is authorised to conduct under the law.

The Parent Bank has been authorised for international payments since 2003, for broker/dealer operations since 2005, for custody bank operations since 2006 and for insurance agent operations since 2011.

Komercijalna banka ad Budva performs the following operations:

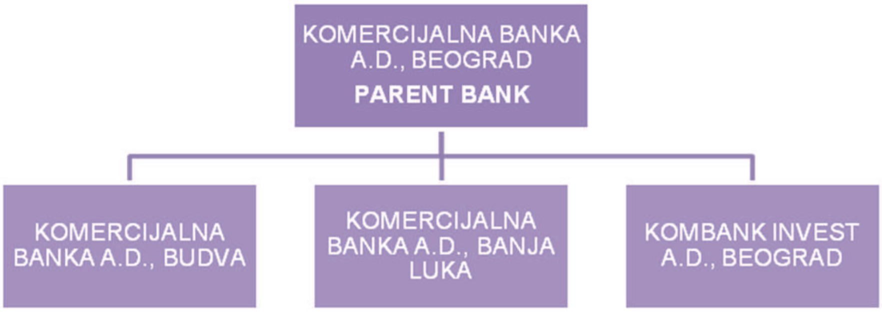
- Deposit operations (receiving and making deposits),
- Loan operations (granting and receiving loans),
- Issuing of guarantees and undertaking of other commitments,
- Debt purchase and collection,
- Issuing and recording of payment instruments,
- International payments,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Data collection and analysis and advising on creditworthiness of companies and sole traders,
- Depository operations,
- Safekeeping of assets and securities,
- Other ancillary operations within the Bank’s scope of operations.

Komercijalna banka ad Banka Luka is registered in Bosnia and Herzegovina for payment operations and loan and deposit operations in the country and abroad, in accordance with the regulations of the Republic of Srpska.

IFMC KombankInvest ad Beograd is registered for the following operations:

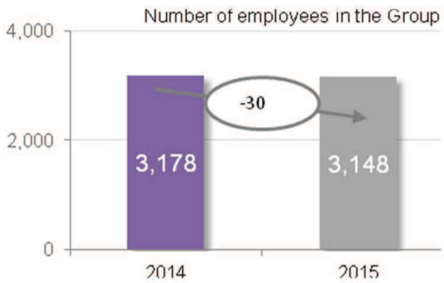
- Organising and managing open-end investment funds,
- Forming and managing closed-end investment funds,
- Managing private investment funds.

Organisational Chart of Komercijalna Banka a.d., Beograd Group:



Employment at KB Group:

As at 31 December 2015, the Group had a total of 3,148 employees, which was 30 fewer employees than in the previous year. Staff cuts have been made at the Parent Bank (29), and at KB Budva (4), while KB Banja Luka (3) saw a slight increase in the number of employees. The number of employees at KomBank Invest remained unchanged.



KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA
100% owned by the Bank	99.998% owned by the Bank

Komercijalna banka a.d., Budva was incorporated in November 2002 as an affiliation of Komercijalna banka a.d., Beograd and was registered with the central register of the Commercial Court of Podgorica on 6 March 2003.

- 120 employees,
- 16 organisational units (branches/outlets)

Komercijalna banka a.d., Banja Luka was incorporated in September 2006 and was registered with the relevant court register on 15 September 2006 pursuant to a Decision of the Basic Court in Banja Luka.

- 147 employees,
- 17 organisational units (branches/outlets)

KOMBANK INVEST A.D., BEOGRAD

100% owned by the Bank

Investment Fund Management (IFM) Company **KomBank INVEST a.d., Beograd** was registered with the Company Register maintained by the Business Registers Agency on 5 February 2008.

The company was incorporated as a privately held company operating in accordance with the Law on Investment Funds, Regulations on Investment Funds and Regulations on Licensing Requirements for IFM Operations.

As at the end of 2015, the Company managed three investment funds, including:

1. KomBank IN FOND, open-end growth investment fund (equity fund)[1].
2. KomBank NOVČANI FOND, open-end value investment fund (money market fund).
3. KomBank DEVIZNI FOND, open-end value investment fund (money market fund).

Key information on registered offices of Group members:

	KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA	IFM KomBank INVEST A.D., BEOGRAD
ADDRESS	Podkošljun bb	Veselina Masleše 6	Kralja Petra 19
PHONE	00382-33-426-300	00387-51-244-700	011-330-8156

[1] At the end of the year it was decided to transform the type of the fund from growth to balanced. This decision took effect after the passing of a relevant Resolution of the Securities Commission in January 2015

Parent Bank Komercijalna banka a.d., Beograd:

	BRANCH	REGISTERED OFFICE
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.	Belgrade	Svetogorska 42 - 44
24.	K. Mitrovica	Kneza Miloša 27

- 2,877 employees,
- 209 outlets organisationally attached to 24 branches based on the regional principle.

ADDRESS	Svetog Save 14	Svetogorska 42-44	Makedonska 29
PHONE	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	3442-347	32-36-160	33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
WEBSITE	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

3. MACROECONOMIC BUSINESS CONDITIONS

Macroeconomic business conditions relevant for the operations of the Group members according to the available information provided by relevant institutions

stated in RSD thousand

Macroeconomic indicators	SERBIA	REPUBLIC OF SRPSKA	MONTENEGRO
Gross domestic product	EUR 33.03 bn	BAM 8.87 bn	EUR 3.66 bn
GDP trends	Up 0.8%	Up 1.4%	Up 4.3%
Consumer Price index	1.5%	-1.4%	1.4%
Banking sector assets	Up 1.3%[2]	Down 0.12%	Up 13.4%[3]
Functional currency	RSD	BAM	EUR
Industrial production	Up 8.2%[4]	Up 3.0%	Up 7.9%
Foreign direct investment	EUR[5] 1.57 bn	BAM 0.4 bn	EUR 0.7 bn
Banking sector NPLs	22.00%[6]	14.55%	16.50%
Unemployment rate	17.90%[7]	25.20%	17.20%

4. OPERATIONS OF BRANCHES BEFORE CONSOLIDATION

Subsidiaries Komercijalna banka a.d., Budva and Komercijalna banka a.d., Banja Luka keep books of account and compile financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina respectively. KomBank INVEST a.d., Beograd compiles its financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of compiling consolidated financial statements, individual audited financial statements of subsidiary banks and the Company have been adapted to reflect the required presentation of financial statements under:

- The accounting regulations of the Republic of Serbia,
- Internal regulations of the Parent Bank - Komercijalna banka a.d., Beograd and
- Relevant IASs and IFRSs.

The functional currencies - EUR in the financial statements of Komercijalna banka a.d., Budva and BAM in the financial statements of Komercijalna banka a.d., Banja Luka – have been translated into the dinar (RSD) as the presentation currency and the functional currency of the Parent Bank on the basis of the officially published exchange rates in the Republic of Serbia, specifically:

- The average exchange rate in the Republic of Serbia in case of Income Statement and Cash Flow Statement, and
- The closing exchange rate as at the reporting date in case of other financial statements (Balance Sheet, Statement of Changes in Equity and Statement of Other Income).

[2] Figure as at 30 September 2015
3 Figure as of November 2015
4 NBS, figure for the period January-December 2015
5 Figure for the period January-November 2015,MFIN
6 NBS, figure as at 30 September 2015
7 Statistical Office of Serbia, Labour Force Survey, Q4 2015

Individual Balance Sheets of Group members before consolidation as at 31 December 2015

stated in RSD thousand

DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Cash and assets held with central bank	63,523,715	2,370,723	3,980,174	693
Investment in securities	128,024,439	1,937,561	1,219,149	114,061
Loans and receivables from banks and other financial organisations	16,844,000	1,041,823	543,247	7,632
Loans and receivables from customers	162,742,565	6,229,312	10,450,779	-
Investment in subsidiaries	5,480,888	-	-	-
Intangible assets	216,830	16,898	18,220	-
Property, plant and equipment	6,139,572	200,220	52,164	51
Investment properties	2,744,026	-	155,895	-
Other assets	6,140,814	1,576,307	154,590	1,044
TOTAL ASSETS	**391,856,849**	**13,372,844**	**16,574,218**	**123,481**
Deposits and other obligations to banks and other financial organisations	17,159,317	290,920	2,886,381	-
Deposits and other obligations to other customers	300,005,903	9,632,142	9,696,578	-
Subordinated obligations	6,077,962	-	-	-
Provisions	2,109,020	63,231	39,735	742
Other obligations	5,047,913	54,343	68,051	1,177
TOTAL OBLIGATIONS	**330,400,115**	**10,040,635**	**12,690,744**	**1,920**
Equity and reserves	61,456,734	3,332,209	3,883,474	121,561
TOTAL LIABILITIES	**391,856,849**	**13,372,844**	**16,574,218**	**123,481**

Individual Income Statements of Group members before consolidation for the period 1 January - 31 December 2015

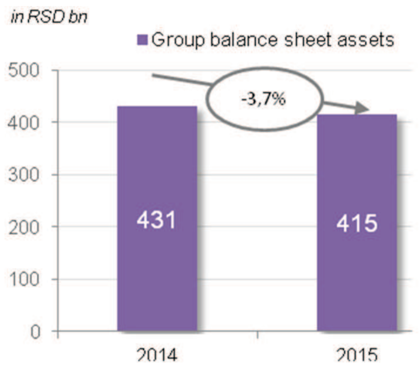
stated in RSD thousand

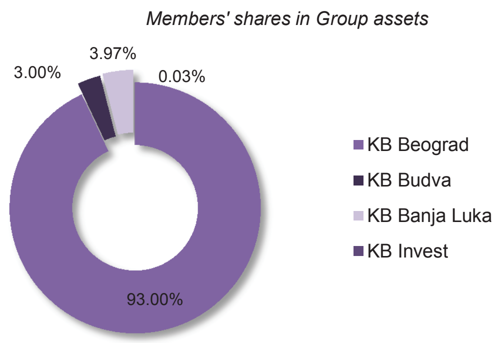
DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	18,856,309	647,408	786,062	12,148
Interest expenses	-5,326,500	-169,238	-205,088	0
Interest gains	**13,529,809**	**478,170**	**580,974**	**12,148**
Fee and commission income	6,004,106	157,407	230,436	7,440
Fee and commission expenses	-1,104,159	-37,366	-66,612	-970
Fee and commission gains	**4,899,947**	**120,041**	**163,824**	**6,470**
Net profit/loss from sale of securities	-5,478	15,121	12,363	1,592
Net income/expense from exchange differences and currency clause	-13,439	3,540	-5,969	8
Other operating income	460,419	6,829	3,624	166
Net gain/loss from indirect loan write-offs and provisions	-13,008,526	-556,515	-242,539	0
Operating and other business expenses	-12,276,890	-668,813	-641,310	-16,889
EARNINGS BEFORE TAX	**(6,414,158)**	**(601,627)**	**(129,033)**	**3,495**
Income tax (current and deferred)	114,527	-496	-21,384	-147
PROFIT	**(6,299,631)**	**(602,123)**	**(150,417)**	**3,348**

5. OPERATIONS OF KB GROUP

stated in RSD thousand

DESCRIPTION	2015	2014	2013	2012	2011
stated in RSD thousand					
GROUP BALANCE SHEET ASSETS	414,878,533	430,702,109	385,261,548	343,170,521	292,679,098
Komercijalna banka a.d., Beograd	385,795,709	400,168,484	357,506,995	318,701,423	270,003,848
Komercijalna banka a.d., Budva	12,497,800	13,939,442	12,251,085	10,471,180	9,456,653
Komercijalna banka a.d., Banja Luka	16,469,869	16,484,378	15,397,653	13,895,956	13,119,415
KomBank INVEST a.d., Beograd	115,155	109,805	105,815	101,962	99,182



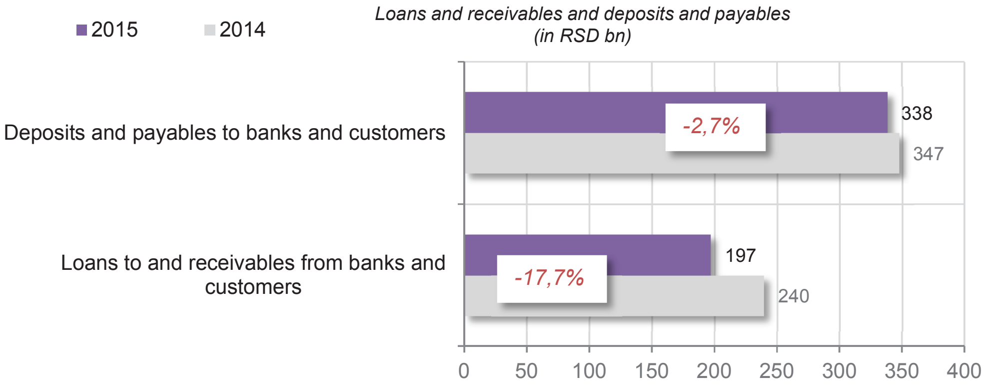


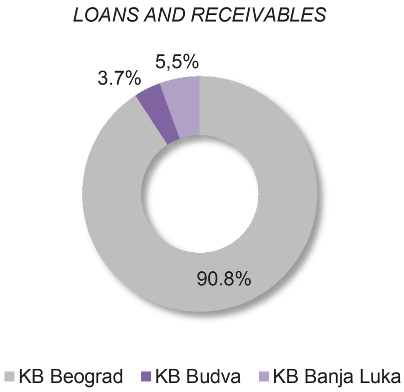
The Group's balance sheet assets have shrunk by 3.7% year-on-year in 2015. The share of the Parent Bank and the share of KB Banja Luka in the Group's total assets increased y-o-y, while the share of KB Budva was slightly lower.

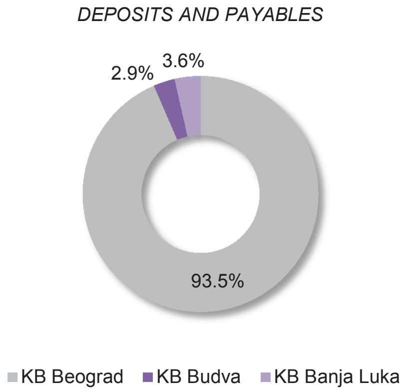
Loans and liabilities of banks and customers as at 31/12/2015 by Group members

stated in RSD thousand

DESCRIPTION	2015	2014	2013	2012	2011
stated in RSD thousand					
LOANS TO AND RECEIVABLES FROM BANKS ANCD CUSTOMERS	197,271,553	239,562,636	231,234,880	217,721,333	169,380,487
Growth rate	(17.7%)	3.6%			
Komercijalna banka a.d., Beograd	179,006,392	219,502,491	212,141,510	199,465,741	155,719,207
Komercijalna banka a.d., Budva	7,271,135	7,687,740	7,630,520	7,300,499	5,615,791
Komercijalna banka a.d., Banja Luka	10,994,026	12,372,405	11,462,850	10,955,093	8,045,489
KomBank INVEST a.d., Beograd	-	-	-	-	-
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	338,103,348	347,341,972	306,302,650	269,884,506	219,922,916
Growth rate	(2.7%)	13.4%			
Komercijalna banka a.d., Beograd	316,177,501	325,559,503	286,908,736	252,888,160	205,917,714
Komercijalna banka a.d., Budva	9,918,868	9,987,090	8,134,122	6,963,203	4,932,913
Komercijalna banka a.d., Banja Luka	12,006,979	11,795,379	11,259,792	10,033,143	9,072,289
KomBank INVEST a.d., Beograd	-	-	-	-	-


2015
2014
Loans and receivables and deposits and payables
(in RSD bn)
Deposits and payables to banks and customers
338
347
-2,7%
Loans to and receivables from banks and customers
197
240
-17,7%
0
50
100
150
200
250
300
350
400


LOANS AND RECEIVABLES
3.7%
5,5%
90.8%
KB Beograd
KB Budva
KB Banja Luka


DEPOSITS AND PAYABLES
2.9%
3.6%
93.5%
KB Beograd
KB Budva
KB Banja Luka

5.1. Consolidated Balance Sheet

The share of total consolidated balance sheet positions is not material, as they account for 1.7% of the balance sheet sum on the aggregate Balance Sheet.

The following have been fully consolidated in the consolidation process:

- The Parent Bank's equity holdings in subsidiary banks and the Company at the initial exchange rate applicable to the holding (RSD 5,480.9 million),
- Internal receivables and payables between Group members (RSD 1,568.0 million),
- Internal revenue and expenses between all Group members (net positive effect of RSD 9.5 million),
- Unrealised internal gains (not generated), and
- Unrealised internal losses (not generated).

Allowance for impairment (provisioning of) loans to Group members and provisions for contingent liabilities have been recognised in accordance with the requirements of IAS 39 and IAS 37, based on the internal methodology adopted by the Group.

ASSETS *stated in RSD thousand*

Members of Komercijalna banka Group	Aggregate assets	AMOUNT of asset consolidation	Consolidated assets	% share
1	2	3	4=2-3	5
Komercijalna banka a.d., Beograd	391,856,849	6,061,140	385,795,709	92.99
Komercijalna banka a.d., Budva	13,372,844	875,044	12,497,800	3.01
Komercijalna banka a.d., Banja Luka	16,574,218	104,349	16,469,869	3.97
KomBank INVEST a.d., Beograd	123,480	8,325	115,155	0.03
TOTAL	**421,927,391**	**7,048,858**	**414,878,533**	**100.00**

LIABILITIES

Members of Komercijalna banka Group	Aggregate liabilities	AMOUNT of liability consolidation	Consolidated liabilities	% share
1	2	3	4=2-3	5
Komercijalna banka a.d., Beograd	391,856,849	-88,301	391,945,150	94.47
Komercijalna banka a.d., Budva	13,372,844	2,689,981	10,682,863	2.57
Komercijalna banka a.d., Banja Luka	16,574,218	4,307,101	12,267,117	2.96
KomBank INVEST a.d., Beograd	123,480	140,077	-16,597	0.00
TOTAL	**421,927,391**	**7,048,858**	**414,878,533**	**100.00**

The share of subsidiaries in the total potential of the KB Group is not material, as it amounts to 7.0% of KB Group's consolidated assets (7.1% in 2014). Their share in KB Group's liabilities is lower and stands at 5.5% (5.5% in 2014), since the equity invested by the Parent Bank is not taken into account for consolidation purposes.

Similarly as in earlier years, the Parent Bank has had a dominant share in the structure of all balance sheet positions of the Group and accounted for 93.0% of the consolidated assets.

Group's consolidated assets as at 31 December 2015

stated in RSD thousand

NO.	BALANCE SHEET POSITION	31/12/2015	31/12/2014	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31/12/2015
	ASSETS				
1.	Cash and assets held with the central bank	68,895,218	72,633,528	94.9%	16.6%
2.	Held-for-trading financial assets presented at fair value on the Income Statement	855,811	121,634	703.6%	0.2%
3.	Available-for-sale financial assets	130,330,094	98,958,788	131.7%	31.4%
4.	Financial assets held to maturity	109,306	390,015	28.0%	0.0%
5.	Loans and receivables from banks and other financial organisations	17,848,897	35,733,988	49.9%	4.3%
6.	Loans and receivables from customers	179,422,656	203,828,648	88.0%	43.3%
7.	Intangible assets	251,948	451,205	55.8%	0.1%
8.	Property, plant and equipment	6,392,007	6,605,496	96.8%	1.5%
9.	Investment properties	2,899,921	2,711,213	107.0%	0.7%
10.	Current tax assets	40,079	79,572	50.4%	0.0%
11.	Deferred tax assets	-	5	0.0%	0.0%
12.	Available-for-sale fixed assets and assets from discontinued operations	170,667	137,802	123.8%	0.0%
13.	Other assets	7,661,929	9,050,215	84.7%	1.9%
	TOTAL ASSETS (items 1 to 13)	**414,878,533**	**430,702,109**	**96.3%**	**100.0%**

In 2015, the Group's balance sheet assets were RSD 15,823.6 million or 3.7% lower year-on-year. Loans to customers declined by RSD 24,406.0 million or 12.0% from year-end 2014 and accounted for 43.3% of total balance sheet assets. This is seen as a result of the lack of sound demand and significant impairments of loans in 2015, which laid down solid foundations for future operations.

Available-for-sale financial assets saw a significant increase in the reporting period and were up RSD 31,371.3 million or 31.7%. Loan growth was achieved through investment in government securities.

Group's consolidated liabilities as at 31 December 2015

stated in RSD thousand

NO.	BALANCE SHEET POSITION	31/12/2015	31/12/2014	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31/12/2015
	LIABILITIES				
1.	Deposits and other obligations to banks, other financial organisations and the central bank	18,768,726	26,247,764	71.5%	4.5%
2.	Deposits and other obligations to other customers	319,334,622	321,094,208	99.5%	77.0%
3.	Subordinated obligations	6,077,962	6,036,680	100.7%	1.5%
4.	Provisions	2,212,728	1,732,069	127.8%	0.5%
5.	Current tax liabilities	11,905	14,726	80.8%	0.0%
6.	Deferred tax liabilities	139,534	160,991	86.7%	0.0%
7.	Other obligations	5,019,966	3,314,942	151.4%	1.2%
8.	**TOTAL OBLIGATIONS (items 1 to 7)**	**351,565,443**	**358,601,380**	**98.0%**	**84.7%**
	EQUITY				
9.	Share capital	40,034,550	40,034,550	100.0%	9.7%
10.	Loss / profit	(7,004,512)	6,925,972		-1.7%
11.	Reserves	30,282,987	25,140,140	120.5%	7.3%
12.	Interest without controlling rights	65	67	97.0%	0.0%
13.	**TOTAL EQUITY (items 9 to 12)**	**63,313,090**	**72,100,729**	**88.3%**	**15.3%**
14.	**TOTAL LIABILITIES**	**414,878,533**	**430,702,109**	**96.4%**	**100.0%**

The Group's total obligations at year-end 2015 amounted to RSD 351,565.4 million and accounted for 84.7% of total liabilities. Total obligations were RSD 7,035.9 million or 2.0% lower year-on-year. This reduction can for the most part be attributed to the outflow of deposits of other financial organisations.

Total equity as at 31 December 2015 amounted to RSD 63,313.1 million and accounted for 15.3% of total liabilities. Total equity was 12.2% or RSD 8,787.6 million lower y-o-y. This decline was the result of the loss posted in 2015.

Consolidated Balance Sheet as at 31 December 2015 – Banking Group members

stated in RSD thousand

	DESCRIPTION	Beograd	Budva	Banja Luka	KomBank INVEST	TOTAL THE GROUP
1	2	3	4	5	6	7
	Position / ASSETS					
1.	Cash and assets held with the central bank	63,523,715	1,495,679	3,875,824	-	68,895,218
2.	Investment in securities	128,024,439	1,937,561	1,219,150	114,061	131,295,211
3.	Loans to and receivables from other financial organisations	16,263,827	1,041,823	543,247	-	17,848,897
4.	Loans to and receivables from customers	162,742,565	6,229,312	10,450,779	-	179,422,656
5.	Intangible assets	216,830	16,898	18,220	-	251,948
6.	Property, plant and equipment	6,139,572	200,220	52,164	51	6,392,007
7.	Investment properties	2,744,026	-	155,895	-	2,899,921
8.	Other assets	6,140,735	1,576,307	154,590	1,043	7,872,675
9.	**TOTAL ASSETS (1 to 8)**	**385,795,709**	**12,497,800**	**16,469,869**	**115,155**	**414,878,533**
	Position / LIABILITIES					
10.	Deposits and other obligations to banks and other financial organisations	16,171,598	286,726	2,310,402	-	18,768,726
11.	Deposits and other obligations to other customers	300,005,903	9,632,142	9,696,577	-	319,334,622
12.	Subordinated obligations	6,077,962	-	-	-	6,077,962
13.	Provisions	2,109,020	63,231	39,735	742	2,212,728
14.	Other obligations	5,047,913	54,341	68,051	1,100	5,171,405
15.	**TOTAL OBLIGATIONS (10 to 14)**	**329,412,396**	**10,036,440**	**12,114,765**	**1,842**	**351,565,443**
16.	Total capital	62,532,754	646,423	152,352	-18,439	63,313,090
17.	**TOTAL LIABILITIES (15+16)**	**391,945,150**	**10,682,863**	**12,267,117**	**-16,597**	**414,878,533**

I	Assets by segments	**385,795,709**	**12,497,800**	**16,469,869**	**115,155**	**414,878,533**
-	***Structure of adjusted positions***					
-	Consolidated cash	-	-875,044	-104,349	-694	-980,087
-	Consolidated deposits made	-4,194	-	-	-7,630	-11,824
-	Consolidated loans granted	-573,380	-	-	-	-573,380
-	Consolidated interest receivable	-2,599	-	-	-2	-2,601
-	Consolidated deferred interest and other income	-79	-	-	1	-78
-	Consolidated equity holdings	-5,480,888	-	-	-	-5,480,888
II	**Assets on individual Balance Sheets**	**391,856,849**	**13,372,844**	**16,574,218**	**123,480**	**421,927,391**

I	**Liabilities by segments**	**391,945,150**	**10,682,863**	**12,267,117**	**-16,597**	**414,878,533**
-	***Structure of adjusted positions***					
-	Consolidated deposits	-987,717	-4,193	-	-	-991,910
-	Consolidated loans received	-	-	-573,380	-	-573,380
-	Consolidated interest payable and other payables	-2	-2	-2,599	-77	-2,680
-	Consolidated equity	1,720,563	-3,330,329	-3,731,122	-140,000	-5,480,888
-	Intra-group dividends	-644,543	644,543	-	-	-
II	**Liabilities on individual Balance Sheets**	**391,856,849**	**13,372,844**	**16,574,218**	**123,480**	**421,927,391**
III	Balance sheet sum in original currency	391,856,849 000/RSD	109,950 000/EUR	266,525 000/BAM	123,480 000/RSD	

5.2. Consolidated Income Statement

In the consolidation process it is necessary to exclude all positions on the individual Income Statements that stem from intra-group transactions, including: interest, fees, commissions and other income/expense.

In 2015, Komercijalna banka a.d. Group had a loss after tax of RSD 7,039.3 million. While the significant amount of loan impairment was the main contributor to the loss posted in 2015, it has also enabled the Bank to safeguard against credit risk without undermining the safety of its operations.

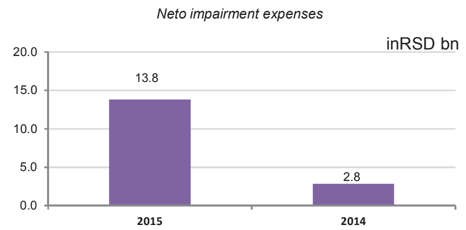
Consolidated Income Statement for the period 1 January - 31 December 2015

stated in RSD thousand

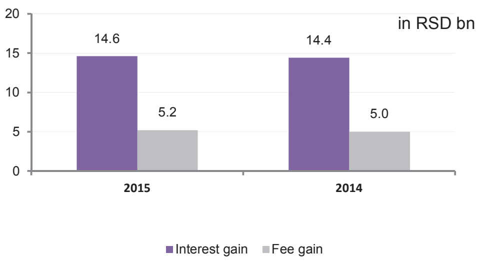
NO.	INCOME STATEMENT POSITION	31/12/2015	31/12/2014	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE			
1.1.	Interest income	20,292,958	22,791,487	89.0%
1.2.	Interest expenses	5,691,858	8,355,436	68.1%
1.	**Net interest income**	**14,601,100**	**14,436,051**	**101.1%**
2.1.	Fee and commission income	6,391,393	6,030,531	106.0%
2.2.	Fee and commission expenses	1,201,111	1,046,591	114.8%
2.	**Net fee and commission income**	**5,190,282**	**4,983,940**	**104.1%**
3.	Net profit from held-for-trading financial assets	4,264	7,022	60.7%
4.	Net profit from available-for-sale financial assets	19,334	79,245	24.4%
5.	Net expense from exchange differences and effects of currency clauses in agreements	6,366	200,284	3.2%
6.	Other operating income	471,037	478,844	98.4%
7.	Net expense from impairment of financial assets and credit risk-weighted off-balance sheet items	13,807,580	2,821,458	489.4%
8.	**TOTAL NET OPERATING INCOME**	**6,472,071**	**16,963,360**	**38.2%**
9.	Costs of salaries, allowances and fringe benefits	4,693,323	4,745,269	98.9%
10.	Depreciation costs	865,987	932,851	92.8%
11.	Other expenses	8,044,592	6,492,439	123.9%
12.	**LOSS / EARNINGS BEFORE TAX (ITEMS 1 TO 11)**	**(7,131,831)**	**4,792,801**	**-**
13.	Income tax	22,211	23,148	96.0%
14.	Deferred tax gain	114,819	47,547	241.5%
15.	Deferred tax loss	108	21,823	0.5%
16.	**LOSS / PROFIT AFTER TAX (ITEMS 12 TO 15)**	**(7,039,331)**	**4,795,377**	**-**
17.	Net profit/loss attributable to minority investors	(2)	-	-
18.	**Net profit/loss attributable to parent entity**	**(7,039,329)**	**4,795,377**	**-**
19.	Base earnings per share	(0.376)	0.253	-
20.	Diluted earnings per share	(0.376)	0.253	-

In the circumstances of lower demand for loans and declining interest rates, the Group's interest income in 2015 saw a year-on-year decline (-11.0%). However, as the reduction of interest expenses in the same period was even greater (-31.9%), the net year-on-year effect has been positive, with net interest income increasing by RSD 165 million or 1.1%.

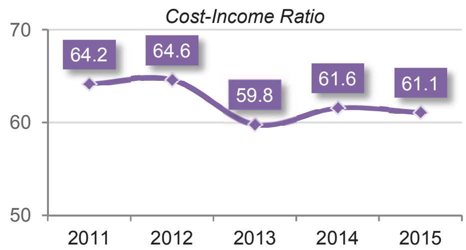
Net interest income also increased y-o-y by RSD 206 million (4.1%) due to an increase in fee and commission income by RSD 361 million (6.0%) and the slightly lower increase in fee expenses by RSD 155 million (14.8%).



At Group level, 2015 saw continued implementation of the active operating expense management policy aimed at cutting operating expenses. The increase in other expenses is mostly attributable to realised expenses for litigations and expenses from adjustment of interest and fees from previous years.

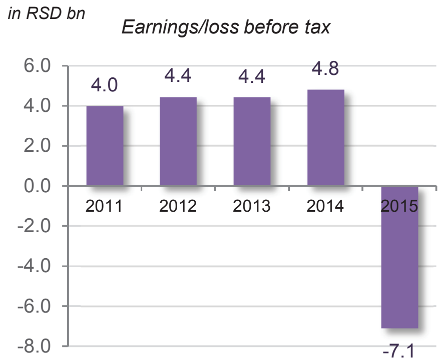


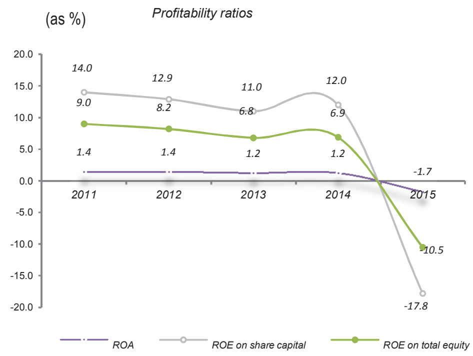
Expenses for impairment of financial assets and credit-risk weighted off-balance sheet liabilities incurred between January and December 2015 amounted to RSD 13,807.6 million, which was a 389.4% increase year-on-year. By posting these impairments, the Bank has protected its loan portfolio and ensured that its financial statements realistically reflect the actual situation.



At Group level, 2015 saw continued implementation of the active operating expense management policy aimed at cutting operating expenses. The increase in other expenses is mostly attributable to realised expenses for litigations and expenses from adjustment of interest and fees from previous years.

Between January and December 2015, the Group incurred operating loss of RSD 7,131.8 million. This loss was posted due to the application of restrictive credit risk assessment criteria relating to the appraisal of collateral held by Komercijalna banka a.d. Beograd and Komercijalna banka ad Banja Luka and appraisal of acquired assets of Komercijalna banka ad Budva. While the significant amount of loan impairment was the main contributor to the posted loss, it has also enabled the Bank to safeguard against credit risk without undermining the safety of its operations.





Consolidated Income Statement by Group members for the period 1 January - 31 December 2015

stated in RSD thousand

	DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL THE GROUP
1	2	3	4	5	6	7
1.	Interest income	18,847,353	647,408	786,062	12,135	20,292,958
2.	Interest expenses	-5,326,488	-169,238	-196,132	0	-5,691,858
3.	**Net interest income/expenses (1+2)**	**13,520,865**	**478,170**	**589,930**	**12,135**	**14,601,100**
4.	Fee income	5,998,900	155,637	229,416	7,440	6,391,393
5.	Fee expenses	-1,101,369	-35,139	-64,315	-288	-1,201,111
6.	**Net fee income/expenses (4+5)**	**4,897,531**	**120,498**	**165,101**	**7,152**	**5,190,282**
7.	Net result of investment in securities	-5,478	15,121	12,363	1,592	23,598
8.	Net result of loan impairment	-13,008,526	-556,515	-242,539	0	-13,807,580
9.	Other income/expenses	465,602	8,733	-9,838	174	464,671
I	**TOTAL NET OPERATING INCOME (3+6+7+8+9)**	**5,869,994**	**66,007**	**515,017**	**21,053**	**6,472,071**
10.	Costs of gross salaries	-4,121,590	-271,261	-289,208	-11,264	-4,693,323
11.	Other operating expenses	-8,155,300	-397,551	-352,104	-5,624	-8,910,579
12.	**Operating expenses (10+11)**	**-12,276,890**	**-668,812**	**-641,312**	**-16,888**	**-13,603,902**
II	**EARNINGS/LOSS BY SEGMENTS (3+6+7+8+9+12)**	**-6,406,896**	**-602,805**	**-126,295**	**4,165**	**-7,131,831**
II	**Earnings/loss by segments**	**-6,406,896**	**-602,805**	**-126,295**	**4,165**	**-7,131,831**
	Structure of adjusted positions					
-	Consolidated interest, net	-8,944	0	8,956	-12	0
-	Consolidated fees, net	-2,416	457	1,277	682	0
-	Other	0	0	0	0	0
-	Exchange differences in intra-group transactions	18,622	-1,634	-7,495		9,493
II	**Earnings/loss by segments**	**-6,414,158**	**-601,628**	**-129,033**	**3,495**	**-7,141,324**
III	**Earnings/loss in original currency**	**(6,414,158) 000/RSD**	**(4,983) 000/EUR**	**(2,090) 000/BAM**	**3,495 000/RSD**	

5.3. Redemption of Own Shares

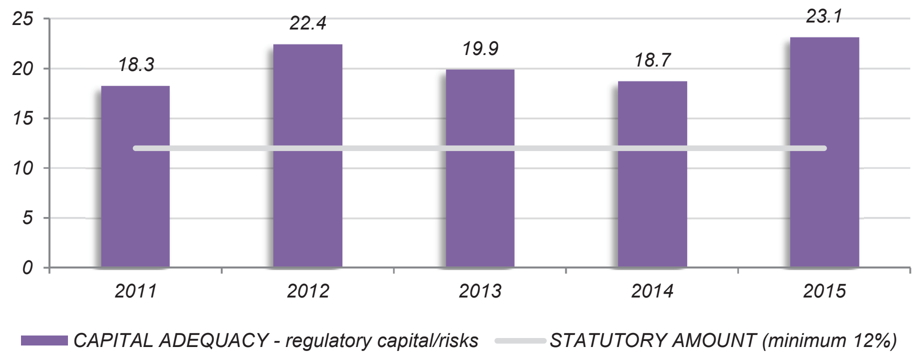
Group members have not redeemed own shares in the past financial year and do not intend to redeem own shares in the coming years.

5.4 Regulatory Requirements for KB Group

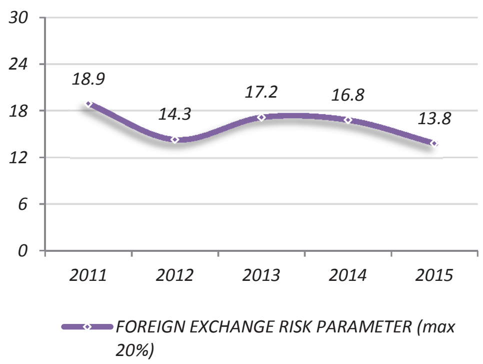
Under the Law on Banks: “The following shall be determined on a consolidated basis for a banking group:

- Capital adequacy ratio,
- Large exposures,
- Investment in other legal persons and fixed assets,
- Net open position.”

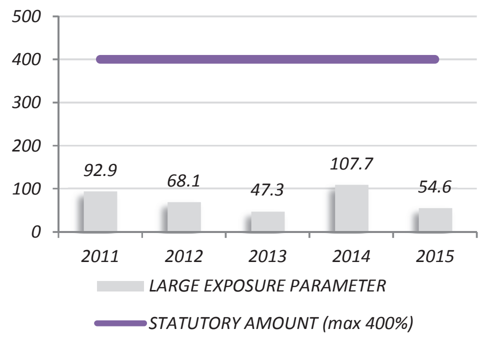
Capital adequacy



Foreign exchange risk parameter

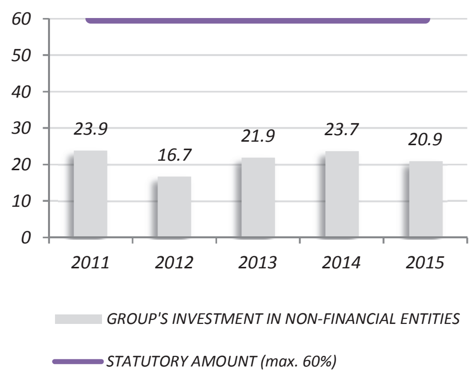


Large exposure paremeter



Related parties

Group investment



6. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has recognised the process of risk management as a key element of managing its operations, as exposure to risk is inherent to all banking operations and needs to be managed through risk identification, assessment, mitigation, monitoring and control and reporting, i.e. through risk limitation, as well as through reporting in accordance with the applicable strategies and policies.

The Group has implemented a comprehensive and reliable risk management system which includes: risk management strategies, policies and procedures; a relevant organisational structure; an effective and efficient system for managing all risks to which it is exposed; an appropriate internal control system; a relevant information system; and an appropriate internal capital adequacy assessment process.

The Group's Risk Management Strategy and Capital Management Strategy set the following risk management objectives: to minimise negative effects on profit and capital within the defined framework of acceptable risk levels; to maintain the required level of capital adequacy; and to develop activities in accordance with business opportunities and market developments to build a competitive edge.

Detailed reports and information on risk management are disclosed in Note 4 in the Notes to Consolidated Financial Statements.

In its operations, the Group is exposed in particular to the following types of risk:

- Credit risk and related risks;
- Liquidity risk;
- Market risk;
- Operational risk;
- Investment risk;
- Exposure risk, and
- Country risk, as well as any other risks that may arise in the Group's operations.

Exposure to Credit Risk

Credit risk is the risk of negative effects on the financial result and capital of the Group caused by a debtor's failure to settle its liabilities towards the Group's members. Credit risk is determined by the debtor's creditworthiness, timeliness of his debt repayment to the Bank and the quality of collateral.

The acceptable level of exposure to credit risk for the Group is defined by the Risk Management Strategy and depends on the structure of the Group's portfolio; it limits the negative effects on profit and minimises capital requirements for credit risk, default risk, delivery risk and counterparty risk in order to maintain capital adequacy at an acceptable level. The Group's member banks grant loans to those (corporate and retail) clients whom they consider to be creditworthy. On the other hand, the Group avoids high-risk investments, such as high-profit and high-risk projects, investment funds with a high-risk portfolio etc.

To safeguard against credit risk, the Group applies credit mitigation techniques by observing exposure limits, diversifying its investment and obtaining acceptable collateral as a secondary source of loan recovery. The Group strives to deal only with creditworthy clients, assesses the creditworthiness of every client at the time of loan application and monitors debtors, loans and collateral in order to be able to undertake relevant debt collection activities.

The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis. Collateral is obtained after the signing of an agreement, but before loan disbursement.

Collateral appraisal and management are governed by the Group's internal regulation.

The Group outsources collateral appraisal to authorised appraisers in order to minimise the potential risk of unrealistic appraisals, while the properties, commodities and other pledged chattels must be insured with an insurance company acceptable to the Group and the insurance policies must include transfer restrictions for the benefit of Group members.

To safeguard against changes in the market value of collateral, the appraised value is adjusted by defined impairment percentages according to the type of collateral and location of the property, which are subject to review and revision at least once a year.

The Group pays special attention to monitoring its collateral and obtains new appraisals, as well as additional collateral, for any clients with identified operating problems, as well as for any clients whose collateral coverage ratio has been reduced due to a decline in the value of the obtained collateral.

The Group performs analysis/quantitative and qualitative measurement and assessment of credit risk. The process of credit risk measurement is based on measuring the risk level assigned to individual loans according to the internal rating system and in accordance with the applicable regulations. Through monitoring and control of its portfolio as a whole and by specific segments, the Group makes comparisons with earlier periods, identifies trends and determines the underlying causes for changes in credit risk levels. The Group also monitors asset quality indicators (NPL trends, loan loss provision coverage ratio etc.), as well as exposure according to the regulatory and internal limits. The process of loan quality monitoring allows the Group's members to assess potential loss as a result of the risks to which they are exposed and to undertake remedial action.

At the initiative of the National Bank of Serbia, with a view to further strengthening of the supervisory and regulatory framework, improving the framework for addressing the issues faced by troubled banks and undertaking efforts to address the high level of non-performing loans in the banking sector, in 2015 the Parent Bank was subject to Special Diagnostic Studies (SDS) conducted by an audit firm's consultants.

Exposure to Liquidity Risk

Liquidity risk is the risk of negative effects on the Group's financial performance and capital due to its failure to settle its liabilities as they fall due. Liquidity risk manifests itself as difficulty in settling the Group's liabilities as they fall due meeting when liquidity reserves and insufficient and the inability to cover unexpected outflows and other liabilities and obtain liquid assets on short notice without incurring major expenses.

In their operations, the Parent Bank and Group members adhere to the core principles of liquidity by generating a sufficient level of liquid assets to cover their liabilities in the short term, i.e. they adhere to the principle of solvency by forming an optimum structure of own and borrowed sources of finance and forming sufficient liquidity reserves without jeopardising the planned return on equity.

Liquidity risk manifests itself as the Group's failure to settle its liabilities as they fall due. Liquidity risk can take the form of the sources of payment risk or the market aspect of liquidity risk. The sources of payment aspect of liquidity risk refers to the structure of liabilities and manifests itself as a potentially material increase in the share of unstable sources or short-term sources or their concentration. On the other hand, liquidity risk also manifests itself as a deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices, i.e. inability of the Group to convert certain parts of its assets into liquid assets on short notice.

The Parent Bank and the Group members undertake preventive activities to minimise their exposure to liquidity risk.

Exposure to Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial performance and capital of the Group caused by adverse changes in interest rates, to which the Bank is exposed on the basis of items recorded in the bank ledger. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.The aim of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of its impact on financial performance and economic value of equity by applying an appropriate policy of maturity matching in the repricing period and by matching sources of finance with loans by types of interest rates and maturity.

The Parent Bank and the Group members timely identify the causes of any current exposure to interest rate risk and assess the factors of potential future exposure to this risk.

Exposure to Foreign Exchange Risk

The Group is exposed to foreign exchange risk, which manifests itself as the risk of negative effects on its financial performance and capital due to foreign exchange volatility, changes in the value of national currency relative to foreign currencies or changes in the value of gold or other precious metals.

To minimise its exposure to foreign exchange risk, the Group diversifies the currency structure of its portfolio and the currency structure of labilities and matches open positions by specific currencies.

The Group is required to bring the volume of its operations in compliance with the parameters set out in the Law on Banks. As of 31 December 2015, all ratios complied with the statutory parameters.

Exposure to Operational Risks

Operational risk is the risk of potential negative effects on the Group's financial performance and capital due to omissions of its employees, inadequate internal procedures and processes, inadequate management of information systems and other systems at the Group's member banks or due to unforeseen external events. Operational risk also includes legal risk, which is the risk of potential negative effects on the Group's financial performance and capital due to lawsuits or out-of-court proceedings. The Group undertakes specific activities to mitigate operational risks and proactively respond to potential operational risk events through continual monitoring of all activities by implementing an appropriate and reliable information system designed to improve business practices and optimise the Group's operating processes. To minimise legal risk and its effects on financial performance, the Group continues improving its business practice as it pertains to timely provisioning against lawsuits against the Group's member banks, based on an assessment of anticipated future loss on this basis.

Large Exposures

Large exposure of the Group to a single person or a group of related parties, including the Bank's related parties, is defined as any exposure the value of which exceeds 10% of the Group's equity.

Exposure to Country Risk

Country risk is the risk associated with the country of origin of a person to whom the Group is exposed, i.e. the risk of potential negative effects on the Group's financial performance and capital due to the Group's inability to collect its receivables from debtors for reasons associated with political, economic or social circumstances in the debtor's country of origin.

7 CORPORATE SOCIAL RESPONSIBILITY

Environmental protection

Having approved Politics and Procedures of Environmental and Social protection at the level of the Bank Group, the Group defined standards for identification of risks and management of the environment and social protection within the process of approval and monitoring of lending. In the same vein, the Group has developed activities in the field of environmental and protection of civil and labor rights, applying the best practice of sustainable financing. The internal acts define the procedures for resolution and provision of response to complaints on direct and indirect impact of business activities on environment and the community. By contracting credit lines for financing investments into energy efficiency and development of renewable energy, loans are approved which ensure energy from green sources resulting in lower carbon dioxide emissions.

Overview of credit lines:

GGF	EUR 23.000.000 (Financing of energy efficiency projects and renewable energy sources)
EFSE	EUR 15.000.000 (Lending to ultimate users – physical persons for improvement of energy efficiency of housing buildings)
EBRD	EUR 10.000.000 (Financing of energy efficiency projects and use of renewable energy in the private sector – small and medium enterprises and local self-governance)

Through categorization of lending, depending on the risk level of environmental and social surrounding, the Group estimates the percentage of financing the activities which might have detrimental impact. The Group continuously follows up emergencies with their clients which could have negative environmental impact or harm health or safety or the community as a whole and reports it regularly to the Bank management bodies and the Shareholders.

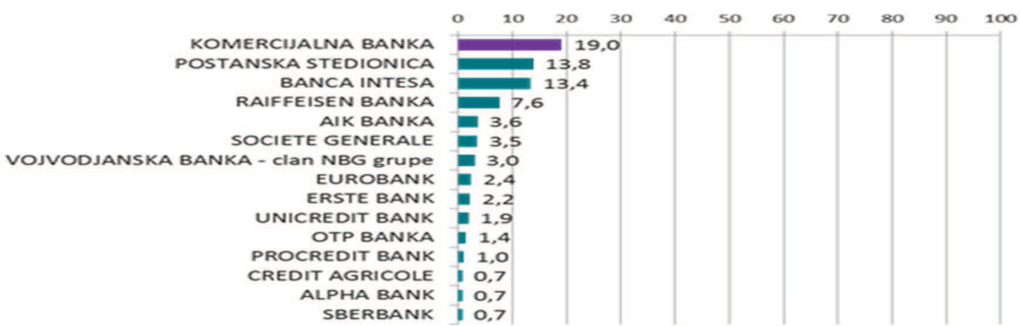
With the view of protection of environment and minimizing possibilities for occurrence of events of detrimental impact to the environment, health and safety or the community as a whole, the Bank finances no clients whose core activity is connected with the manufacturing or trade of arms and ammunition, alcoholic beverages', radioactive material and other technologies that might have negative impact on the environment in compliance with the standards of good international practice in this area.

Research and development

The Bank group continuously monitors the activities of banking products, with the help of available human resources, and hires specialized, independent polling agencies.

Market research: IPSOS Strategic Marketing, Banking omnibus, November 2015.

The Best Bank in Serbia – Top 15



The Agencies provide the data about satisfaction of clients, and according to the analyses, the Group is a leader in the brand recognition and quality of service.

Polling results are helpful in the process of business decision making, particularly important in core segments of development of new and improvement and modification of the existing products and services.

In the continuous process of follow up of market signals and needs of customers and potential clients, the business sectors in the Group offered new and/or upgraded some types of credits in retail and micro client segments and developed, satisfactory, under the circumstances, a whole range of services in electronic banking, pay and credit cards.

The results of research and development have been implemented in the Strategy and Business plan of the Group.

Humanitarian and other actions – socially responsible conduct

Special contribution to preservation and value image was provided by CSR activities, carefully selected and supported by the Group in close cooperation with its partners.

ZAJEDNO ZA BEBE

In the previous year the Parent bank directed most of its CSR engagement to the action "Together for Babies, contributing considerably to the affirmation of the Bank in CSR activities as a leader and initiator of such and similar projects. Thanks to that action, action, carried out in cooperation with the Fund B92, in 2015 resources were pooled for equipment of maternity wards in Aleksinac, Valjevo, Gračanica and Kruševac.

The Bank offered support to our athletes as well, who won the medals at the European and world championships, and supported the preparations for Olympic games in Brazil: Milica Mandić, Ivana Španović, Tijana Bogdanović, etc.

KOMBANK ARTHOL

The Parent Bank assisted a number of charity, cultural, arts and sports projects and actions, and particularly those for the young and gifted (KomBank Art hol, School of talents of Komercijalna banka, Young literary super talents).

CSR activities of the Parent bank have bee coordinated with subsidiaries of the Bank in Montenegro and Republic of Srpska.

Komercijalna banka Budva continued support of NGO "Food bank" and helps the most deprived families in Montenegro, awards the most talented pupils of elementary schools in Montenegro and all the babies born during the Week of savings.

Komercijalna banka Banja Luka in 2015 supported young athletes and Football school for children. It actively participated in the Humanitarian supper hosted by the President of the Republic, collecting money for the children suffering from rare diseases, and support was provided also to the Association of children suffering from ma`lign diseases "Iskra".

Rules of corporate governance

The rules of corporate management are based on the relevant legal regulations (Law on Banks and Company Law). The Code of corporate governance set out the principles of corporate practice, which are observed in business conduct and compliance of the holders of corporate governance. The purpose of the Code is introduction of good business customs and establishment of high standards in the area of corporate governance, which should ensure consolidation of thrust of the Shareholders, investors, clients and other stakeholders. Good practice of corporate governance basically enables consistence of control system, protection of Shareholders' interest, timely provision of all relevant information about the operations and complete transparence via public access to the company financial statements.

The Parent Bank applies the Code of corporate governance of the Serbian Chamber of Commerce in its operations, which was adopted by the Assembly of the Chamber.

The Komercijalna banka ad Budva applies in it operations the Code of business ethics, which was adopted by the Assembly of the Chamber of Commerce of Montenegro (Official Gazette of RMG, no. 45/11 of 09.09.2011.), which stipulates that the provisions are obligatory for all business entities in Montenegro.

The Komercijalna banka ad Banja Luka applies in its operations the Standards of corporate governance promulgated by the Securities Commission of the Republic of Srpska, further to Article 309 of the Company Act (Official Gazette of Republic of Srpska no. 127/98, 58/09 and 100/11) and Article 260 of the Law on securities Market (Official Gazette of Republic of Srpska no. 92/06 i 34/09).

KomBank INVEST a.d. Beograd applies the Rules of Conduct approved by Securities Commission further to Article 17 of the Law on Investment funds (Official Gazette of RS, no. 46/2006, 51/2009,31/2011 and 115/2014).

Competences and authorities of all the bodies of the Group are grounded on corresponding legal regulations and defined in internal acts. Rules of corporate governance are implemented through internal acts and there are no departures in their implementation.

8 SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

Since 1 January 2016 till the end February 2016, two General Meetings of the Parent Bank KB Beograd Shareholders have been held:

- Regular General Meeting of Shareholders was held 22 January 2016..

  The meeting approved the following decisions: Information about Article 77 of the Law n Banks and Report in compliance with Article 78 of the Law on Banks;

- An extraordinary General Meeting of Shareholders of the Parent Bank was held 27 January 2016. The meeting approved the following decision: decision relieving and appointing member and chairman of the Board of Directors of Komercijalna banka ad Beograd.
- During the month of March 2016, the Bank applied to EBRD for earlier repayment of a credit line in use in the amount of EUR 17.1 million and simultaneous signing of contract on new credit line of EUR 30 million under favorable conditions, which is going to take place aat the end of April 2016.

Other major event after the end of the business year was disclosed in the Notes to consolidated financial statements – Note no. 41.

9 PLANNED FUTURE DEVELOPMENT

The Group promulgates the Strategy and Business Plan for the future at the level of subsidiaries, depending on local operating conditions. The Strategies and Business plan were adopted at the level of the members of the Group, for the period of next three years. Depending on the complex macroeconomic conditions the Group continues its operations with conservative approach to risk. The focus of the Group shall remain on the achievement of long-term competitiveness. Geographically, members shall attempt to allocate the funds most profitably depending on the situation in the local markets. Business policies have not been changed relative to the previous business year at the level of individual commercial banks, members of the Group. The Group is facing the privatization process in the period to come but also the process of strengthening of regional presence.
Business environment, locally and regionally in the period to come will be marked by the onset of economic recovery but also the growth of NPLs. The Banking sector in Serbia was characterized by implementation of Special due diligence (PDI), which in addition to the systemic weaknesses (quality of assessment of collaterals, inefficiency of bankruptcy procedures and financial restructuring), revealed that the banking sector is still adequately capitalized and steady in the future. In the period to come a change of the business model is expected in the individual members of the GroupKB in the expectation that the operations will mostly depend on the implementation of reforms and recovery of domestic market. The implementation of the Adopted Strategy and Business Plan is going on through the definition of business targets by business lines, along clear identification of policies for achievement of the set goals, needed resources and activities to be undertaken towards the accomplishment of the set objectives.

Pressure on net profit from interest rates and interest margins will continue in future along with the lowering of deposit rates. High uncertainty is around the consequences of structural reforms of public finance in the future which will exert additional pressure on aggregate demand. Operating costs of banking industry remain at the high level; hence their revision is expected in the future.

The most important changes in the regulations and supervision of the Parent bank will come from the implementation of Basle III standards, in the part of regulatory capital, which will influence capital adequacy ratio. Another change will be legally required liquidity. Those changes will affect additional consolidation of capital and improvement of the risk management process but also cost of operations.

Steady and sustainable operations of all Group members have been in the focus of setting the main strategic goals for the period to come, primarily through:

- Defense of interest rate margin.
- Rising of efficiency and
- Maintenance of credit portfolio quality before growth.

The mission and long-term option of KB Beograd in the period to come shall remain to be:

- Universal bank with individual focus on corporate and retail;
- Leading Serbian bank with regional presence.

Strategic goals may be defined as:

- Maintenance of stability of operations and reputation,
- Growth of value of the bank facing privatization,
- Sustainable growth of business and profitability.

The guiding principles of the Parent bank but of the other members, in setting out the goals are :

- Stability and long term operations and value for the Shareholders;
- Prudence;
- Conservative approach.

Planned performance by Group members in the next three years:

GROUP MEMBERS	KB BEOGRAD			KB BANJA LUKA[8]			KB BUDVA		
Plan	2016	2017	2018	2016	2017	2018	2016	2017	2018
Assets growth	1,2%	3,2%	4,7%	2,2%	3,7%	4,1%	5,8%	2,8%	3,0%
ROE on share capital	12,9%	16,7%	22,1%	1,8%	2,6%	3,4%	1,0%	2,9%	4,7%
ROE on total capital	8,1%	9,9%	12,2%	1,8%	2,4%	3,1%	1,0%	2,9%	4,4%
ROA	1,3%	1,7%	2,1%	0,4%	0,6%	0,7%	0,2%	0,7%	1,0%
CIR	56,4%	53,8%	47,9%	79,2%	74,3%	72,0%	80,7%	75,7%	71,4%
Interest rate margin on total assets	3,4%	3,5%	3,8%	3,6%	3,8%	3,9%	4,1%	4,2%	4,3%

KomBank INVEST ad Beograd also has the approved Strategy and Business Plan for three-year period.

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

Jelena Đurović
Executive Board member

Alexander Picker,
Executive Board Chairman

8 Strategy and Business Plan of KB Banja Luka will be adopted at the next General Meeting of Shareholders of KB Banja Luka

2015 ANNUAL REPORT OF KOMERCIJALNA BANKA GROUP

C O N T E N T S

Consolidated financial statements of the banking group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies EUR, used in the financial statements of Komercijalna banka a.d., Budva, and BAM, used in the financial statements of Komercijalna banka a.d., Banja Luka, have been converted to the dinar (RSD) as the Parent Bank's reporting currency based on the officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been classified based on the average official exchange rate in the Republic of Serbia for 2015 of RSD 120.7441 for EUR 1 and RSD 61.7355 for BAM 1 respectively, while other consolidated financial statements (Balance Sheet, Statement of Changes in Equity and Statement of Other Income) have been classified based on the closing exchange rate on the dates of those statements, which were RSD 121.6261 for EUR 1 and RSD 62.1864 for BAM 1 respectively.

Any transactions in foreign currency have been translated into dinars at the middle exchange rate in the interbank foreign exchange market as at the date of the relevant transaction.

The assets and liabilities presented in foreign exchange as at the date of the Consolidated Balance Sheet been translated into dinars at the middle exchange rate in the interbank foreign exchange market as at that date.

1. BASIC INDICATORS OF GROUP'S OPERATIONS

DESCRIPTION	2015	2014	INDICES 2015/2014	2013	2012	2011
in RSD thousand and as a percentage						
Earnings before tax	(7,131,831)	4,792,801	-	4,400,642	4,424,450	3,987,990
Net interest income	14,601,100	14,436,051	101,1	14,128,460	12,133,439	10,930,909
Net commission income	5,190,282	4,983,940	104,1	4,829,281	4,830,274	4,668,720
PROFITABILITY PARAMETERS						
ROA	(1.7%)	1.2%	-	1.2%	1.4%	1.4%
ROE (on share capital)	(17.8%)	12.0%	-	11.0%	12.9%	14.0%
ROE (on total capital)	(10.5%)	6.9%	-	6.8%	8.2%	9.0%
Net interest margin on total assets	3.5%	3.5%	-	3.9%	3.5%	3.7%
Cost / income ratio	61.1%	61.6%	-	59.8%	64.6%	64.2%
Operating expenses	12,092,310	11,953,592	101,2	11,327,317	10,963,873	10,014,240
Net loan impairment expense	13,807,580	2,821,458	489,4	3,359,720	1,946,369	1,488,299
Consolidated balance sheet assets	414,878,533	430,702,109	96,3	384,296,023	342,267,358	292,679,098
Off-balance sheet operations	621,827,674	416,982,422	149,1	227,797,499	207,913,711	186,996,187
Loans and receivables	197,271,553	239,562,636	82,3	231,234,880	217,721,333	169,380,487
Deposits and other liabilities	338,103,348	347,341,972	97,3	306,302,650	269,884,506	219,922,916
RETAIL						
Loans	64,240,714	62,409,233	102,9	73,125,444	66,301,426	57,293,037
Deposits	227,739,097	216,146,708	105,4	194,795,589	168,251,976	145,353,867
CORPORATE						
Loans	115,181,942	141,419,415	81,4	134,831,909	143,090,089	120,060,887
Deposits	91,595,525	104,947,500	87,3	88,279,688	69,645,451	63,107,566
Gross loans/deposits	68.13%	71.1%	-	79.7%	82.8%	80.6%
Net loans/deposits	56.19%	69.0%	-	73.8%	77.6%	77.6%
CAPITAL	63,313,090	72,100,729	87,8	67,041,696	62,073,150	46,044,022
Capital adequacy	23.1%	18.7%	-	19.9%	22.4%	18.3%
Number of employees	3,148	3,178	99,1	3,233	3,254	3,282
Assets per employee *(stated in RSD thousand)*	131,791	135,526	97,2	118,867	105,184	89,177
Assets per employee *(stated in EUR thousand)*	1,084	1,120	96,8	1,039	927	852

2. OPERATIONS AND ORGANISATIONAL STRUCTURE

The Banking Group consists of three banks (the parent bank and two subsidiaries) and one investment fund management company.

The Parent Bank, Komercijalna banka ad Beograd, performs the following operations within the framework of its registered business activity:

- Deposit operations (receiving and making deposits),
- Loan operations (granting and receiving loans),
- Foreign currency and money exchange operations;
- Payment operations;
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuing of guarantees, acceptances and other forms of surety (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agent operations, with prior approval from the National Bank of Serbia;
- Other operations it is authorised to conduct under the law.

The Parent Bank has been authorised for international payments since 2003, for broker/dealer operations since 2005, for custody bank operations since 2006 and for insurance agent operations since 2011.

Komercijalna banka ad Budva performs the following operations:

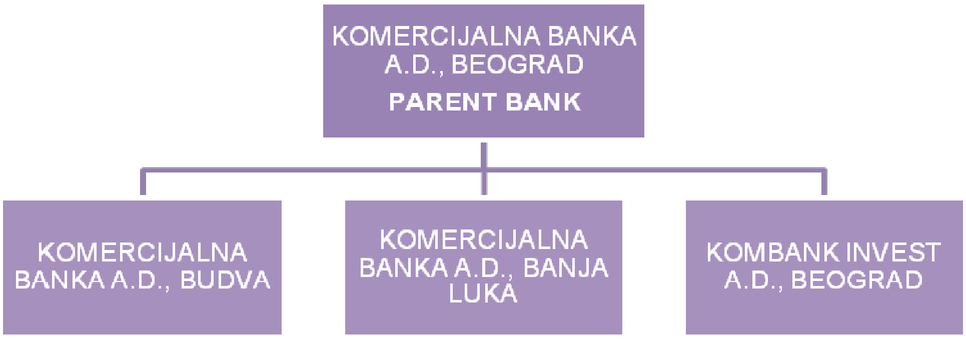
- Deposit operations (receiving and making deposits),
- Loan operations (granting and receiving loans),
- Issuing of guarantees and undertaking of other commitments,
- Debt purchase and collection,
- Issuing and recording of payment instruments,
- International payments,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Data collection and analysis and advising on creditworthiness of companies and sole traders,
- Depository operations,
- Safekeeping of assets and securities,
- Other ancillary operations within the Bank's scope of operations.

Komercijalna banka a.d. Banka Luka is registered in Bosnia and Herzegovina for payment operations and loan and deposit operations in the country and abroad, in accordance with the regulations of the Republic of Srpska.

IFMC KomBank INVEST a.d .Beograd is registered for the following operations:

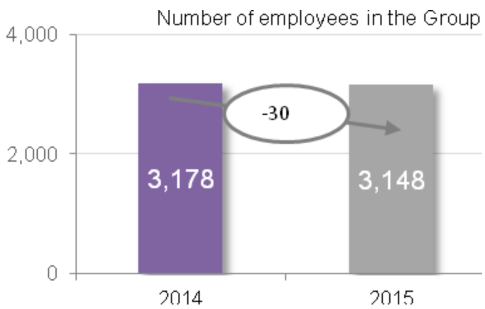
- Organising and managing open-end investment funds,
- Forming and managing closed-end investment funds,
- Managing private investment funds.

Organisational Chart of Komercijalna Banka a.d., Beograd Group:



Employment at KB Group:

As at 31 December 2015, the Group had a total of 3,148 employees, which was 30 fewer employees than in the previous year. Staff cuts have been made at the Parent Bank (29), and at KB Budva (4), while KB Banja Luka (3) saw a slight increase in the number of employees. The number of employees at KomBank Invest remained unchanged.

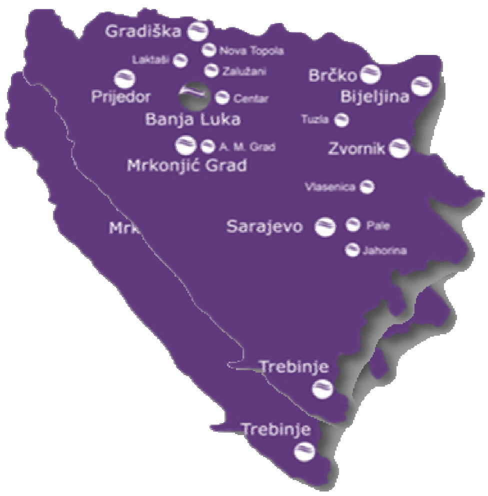


KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA
100% owned by the Bank	99.998% owned by the Bank

Komercijalna banka a.d., Budva was incorporated in November 2002 as an affiliation of Komercijalna banka a.d., Beograd and was registered with the central register of the Commercial Court of Podgorica on 6 March 2003.

Komercijalna banka a.d., Banja Luka was incorporated in September 2006 and was registered with the relevant court register on 15 September 2006 pursuant to a Decision of the Basic Court in Banja Luka.

- 120 employees,
- 16 organisational units (branches/outlets)



- 147 employees,
- 17 organisational units (branches/outlets)

KOMBANK INVEST A.D., BEOGRAD

100% owned by the Bank

Investment Fund Management (IFM) Company **KomBank INVEST a.d., Beograd** was registered with the Company Register maintained by the Business Registers Agency on 5 February 2008.

The company was incorporated as a privately held company operating in accordance with the Law on Investment Funds, Regulations on Investment Funds and Regulations on Licensing Requirements for IFM Operations.

As at the end of 2015, the Company managed three investment funds, including:

1. KomBank IN FOND, open-end growth investment fund (equity fund)[1].
2. KomBank NOVČANI FOND, open-end value investment fund (money market fund).
3. KomBank DEVIZNI FOND, open-end value investment fund (money market fund).

Key information on registered offices of Group members:

	KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA	IFM KomBank INVEST A.D., BEOGRAD
ADDRESS	Podkošljun bb	Veselina Masleše 6	Kralja Petra 19
PHONE	00382-33-426-300	00387-51-244-700	011-330-8156

[1] At the end of the year it was decided to transform the type of the fund from growth to balanced. This decision took effect after the passing of a relevant Resolution of the Securities Commission in January 2015

Parent Bank Komercijalna banka a.d., Beograd:

	BRANCH	REGISTERED OFFICE
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.	Belgrade	Svetogorska 42 - 44
24.	K. Mitrovica	Kneza Miloša 27

- 2,877 employees,
- 209 outlets organisationally attached to 24 branches based on the regional principle.

ADDRESS	Svetog Save 14	Svetogorska 42-44	Makedonska 29
PHONE	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	3442-347	32-36-160	33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
WEBSITE	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

3. MACROECONOMIC BUSINESS CONDITIONS

Macroeconomic business conditions relevant for the operations of the Group members according to the available information provided by relevant institutions

stated in RSD thousand

Macroeconomic indicators	SERBIA	REPUBLIC OF SRPSKA	MONTENEGRO
Gross domestic product	EUR 33.03 bn	BAM 8.87 bn	EUR 3.66 bn
GDP trends	Up 0.8%	Up 1.4%	Up 4.3%
Consumer Price index	1.5%	-1.4%	1.4%
Banking sector assets	Up 1.3%[2]	Down 0.12%	Up 13.4%[3]
Functional currency	RSD	BAM	EUR
Industrial production	Up 8.2%[4]	Up 3.0%	Up 7.9%
Foreign direct investment	EUR[5] 1.57 bn	BAM 0.4 bn	EUR 0.7 bn
Banking sector NPLs	22.00%[6]	14.55%	16.50%
Unemployment rate	17.90%[7]	25.20%	17.20%

4. OPERATIONS OF BRANCHES BEFORE CONSOLIDATION

Subsidiaries Komercijalna banka a.d., Budva and Komercijalna banka a.d., Banja Luka keep books of account and compile financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina respectively. KomBank INVEST a.d., Beograd compiles its financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of compiling consolidated financial statements, individual audited financial statements of subsidiary banks and the Company have been adapted to reflect the required presentation of financial statements under:

- The accounting regulations of the Republic of Serbia,
- Internal regulation of the Parent Bank - Komercijalna banka a.d., Beograd and
- Relevant IASs and IFRSs.

The functional currencies - EUR in the financial statements of Komercijalna banka a.d., Budva and BAM in the financial statements of Komercijalna banka a.d., Banja Luka – have been translated into the dinar (RSD) as the presentation currency and the functional currency of the Parent Bank on the basis of the officially published exchange rates in the Republic of Serbia, specifically:

- The average exchange rate in the Republic of Serbia in case of Income Statement and Cash Flow Statement, and
- The closing exchange rate as at the reporting date in case of other financial statements (Balance Sheet, Statement of Changes in Equity and Statement of Other Income).

[2] Figure as at 30 September 2015
3 Figure as of November 2015
4 NBS, figure for the period January-December 2015
5 Figure for the period January-November 2015,MFIN
6 NBS, figure as at 30 September 2015
7 Statistical Office of Serbia, Labour Force Survey, Q4 2015

Individual Balance Sheets of Group members before consolidation as at 31 December 2015

stated in RSD thousand

DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Cash and assets held with central bank	63,523,715	2,370,723	3,980,174	693
Investment in securities	128,024,439	1,937,561	1,219,149	114,061
Loans and receivables from banks and other financial organisations	16,844,000	1,041,823	543,247	7,632
Loans and receivables from customers	162,742,565	6,229,312	10,450,779	-
Investment in subsidiaries	5,480,888	-	-	-
Intangible assets	216,830	16,898	18,220	-
Property, plant and equipment	6,139,572	200,220	52,164	51
Investment properties	2,744,026	-	155,895	-
Other assets	6,140,814	1,576,307	154,590	1,044
TOTAL ASSETS	**391,856,849**	**13,372,844**	**16,574,218**	**123,481**
Deposits and other obligations to banks and other financial organisations	17,159,317	290,920	2,886,381	-
Deposits and other obligations to other customers	300,005,903	9,632,142	9,696,578	-
Subordinated obligations	6,077,962	-	-	-
Provisions	2,109,020	63,231	39,735	742
Other obligations	5,047,913	54,343	68,051	1,177
TOTAL OBLIGATIONS	**330,400,115**	**10,040,635**	**12,690,744**	**1,920**
Equity and reserves	61,456,734	3,332,209	3,883,474	121,561
TOTAL LIABILITIES	**391,856,849**	**13,372,844**	**16,574,218**	**123,481**

Individual Income Statements of Group members before consolidation for the period 1 January - 31 December 2015

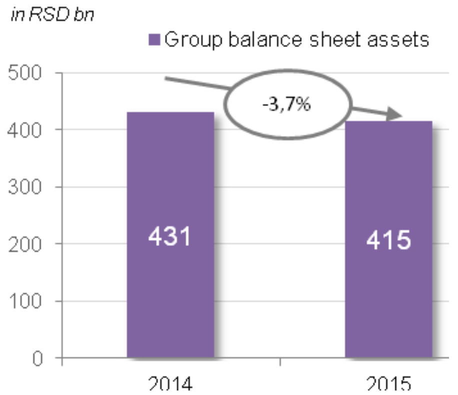
stated in RSD thousand

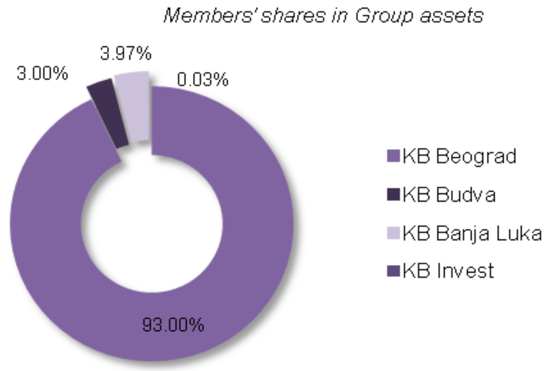
DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	18,856,309	647,408	786,062	12,148
Interest expenses	-5,326,500	-169,238	-205,088	0
Interest gains	**13,529,809**	**478,170**	**580,974**	**12,148**
Fee and commission income	6,004,106	157,407	230,436	7,440
Fee and commission expenses	-1,104,159	-37,366	-66,612	-970
Fee and commission gains	**4,899,947**	**120,041**	**163,824**	**6,470**
Net profit/loss from sale of securities	-5,478	15,121	12,363	1,592
Net income/expense from exchange differences and currency clause	-13,439	3,540	-5,969	8
Other operating income	460,419	6,829	3,624	166
Net gain/loss from indirect loan write-offs and provisions	-13,008,526	-556,515	-242,539	0
Operating and other business expenses	-12,276,890	-668,813	-641,310	-16,889
EARNINGS BEFORE TAX	**(6,414,158)**	**(601,627)**	**(129,033)**	**3,495**
Income tax (current and deferred)	114,527	-496	-21,384	-147
PROFIT	**(6,299,631)**	**(602,123)**	**(150,417)**	**3,348**

5. OPERATIONS OF KB GROUP

stated in RSD thousand

DESCRIPTION	2015	2014	2013	2012	2011
stated in RSD thousand					
GROUP BALANCE SHEET ASSETS	414,878,533	430,702,109	385,261,548	343,170,521	292,679,098
Komercijalna banka a.d., Beograd	385,795,709	400,168,484	357,506,995	318,701,423	270,003,848
Komercijalna banka a.d., Budva	12,497,800	13,939,442	12,251,085	10,471,180	9,456,653
Komercijalna banka a.d., Banja Luka	16,469,869	16,484,378	15,397,653	13,895,956	13,119,415
KomBank INVEST a.d., Beograd	115,155	109,805	105,815	101,962	99,182



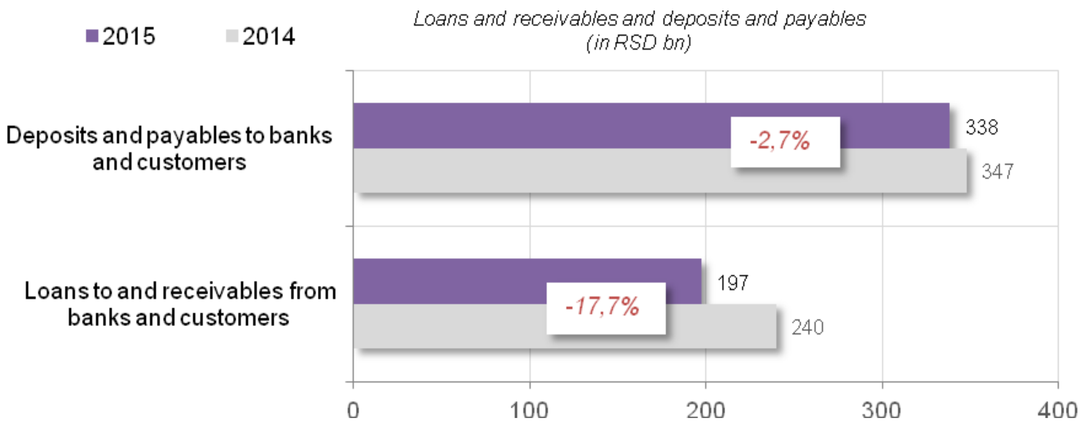


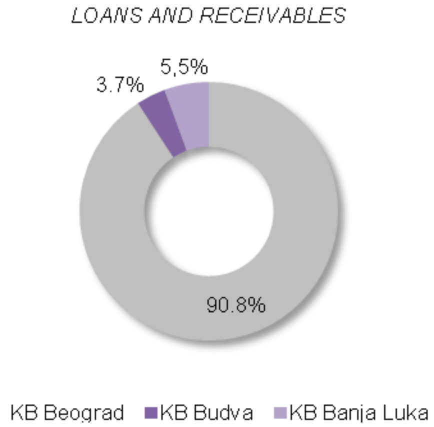
The Group's balance sheet assets have shrunk by 3.7% year-on-year in 2015. The share of the Parent Bank and the share of KB Banja Luka in the Group's total assets increased y-o-y, while the share of KB Budva was slightly lower.

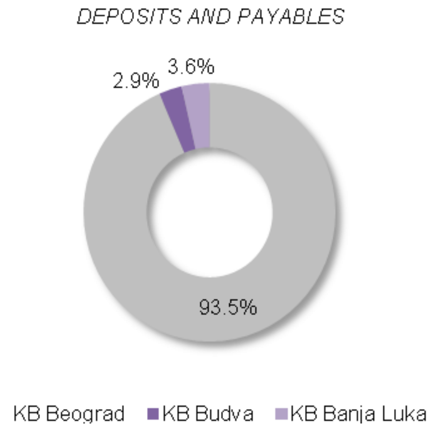
Loans and liabilities of banks and customers as at 31/12/2015 by Group members

stated in RSD thousand

DESCRIPTION	2015	2014	2013	2012	2011
stated in RSD thousand					
LOANS TO AND RECEIVABLES FROM BANKS ANCD CUSTOMERS	197,271,553	239,562,636	231,234,880	217,721,333	169,380,487
Growth rate	(17.7%)	3.6%			
Komercijalna banka a.d., Beograd	179,006,392	219,502,491	212,141,510	199,465,741	155,719,207
Komercijalna banka a.d., Budva	7,271,135	7,687,740	7,630,520	7,300,499	5,615,791
Komercijalna banka a.d., Banja Luka	10,994,026	12,372,405	11,462,850	10,955,093	8,045,489
KomBank INVEST a.d., Beograd	-	-	-	-	-
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	338,103,348	347,341,972	306,302,650	269,884,506	219,922,916
Growth rate	(2.7%)	13.4%			
Komercijalna banka a.d., Beograd	316,177,501	325,559,503	286,908,736	252,888,160	205,917,714
Komercijalna banka a.d., Budva	9,918,868	9,987,090	8,134,122	6,963,203	4,932,913
Komercijalna banka a.d., Banja Luka	12,006,979	11,795,379	11,259,792	10,033,143	9,072,289
KomBank INVEST a.d., Beograd	-	-	-	-	-


2015
2014
Loans and receivables and deposits and payables
(in RSD bn)
Deposits and payables to banks and customers
338
-2,7%
347
Loans to and receivables from banks and customers
197
-17,7%
240
0
100
200
300
400


LOANS AND RECEIVABLES
3.7%
5,5%
90.8%
KB Beograd
KB Budva
KB Banja Luka


DEPOSITS AND PAYABLES
2.9%
3.6%
93.5%
KB Beograd
KB Budva
KB Banja Luka

5.1. Consolidated Balance Sheet

The share of total consolidated balance sheet positions is not material, as they account for 1.7% of the balance sheet sum on the aggregate Balance Sheet.

The following have been fully consolidated in the consolidation process:

- The Parent Bank's equity holdings in subsidiary banks and the Company at the initial exchange rate applicable to the holding (RSD 5,480.9 million),
- Internal receivables and payables between Group members (RSD 1,568.0 million),
- Internal revenue and expenses between all Group members (net positive effect of RSD 9.5 million),
- Unrealised internal gains (not generated), and
- Unrealised internal losses (not generated).

Allowance for impairment (provisioning of) loans to Group members and provisions for contingent liabilities have been recognised in accordance with the requirements of IAS 39 and IAS 37, based on the internal methodology adopted by the Group.

ASSETS *stated in RSD thousand*

Members of Komercijalna banka Group	Aggregate assets	AMOUNT of asset consolidation	Consolidated assets	% share
1	2	3	4=2-3	5
Komercijalna banka a.d., Beograd	391,856,849	6,061,140	385,795,709	92.99
Komercijalna banka a.d., Budva	13,372,844	875,044	12,497,800	3.01
Komercijalna banka a.d., Banja Luka	16,574,218	104,349	16,469,869	3.97
KomBank INVEST a.d., Beograd	123,480	8,325	115,155	0.03
TOTAL	**421,927,391**	**7,048,858**	**414,878,533**	**100.00**

LIABILITIES

Members of Komercijalna banka Group	Aggregate liabilities	AMOUNT of liability consolidation	Consolidated liabilities	% share
1	2	3	4=2-3	5
Komercijalna banka a.d., Beograd	391,856,849	-88,301	391,945,150	94.47
Komercijalna banka a.d., Budva	13,372,844	2,689,981	10,682,863	2.57
Komercijalna banka a.d., Banja Luka	16,574,218	4,307,101	12,267,117	2.96
KomBank INVEST a.d., Beograd	123,480	140,077	-16,597	0.00
TOTAL	**421,927,391**	**7,048,858**	**414,878,533**	**100.00**

The share of subsidiaries in the total potential of the KB Group is not material, as it amounts to 7.0% of KB Group's consolidated assets (7.1% in 2014). Their share in KB Group's liabilities is lower and stands at 5.5% (5.5% in 2014), since the equity invested by the Parent Bank is not taken into account for consolidation purposes.

Similarly as in earlier years, the Parent Bank has had a dominant share in the structure of all balance sheet positions of the Group and accounted for 93.0% of the consolidated assets.

Group's consolidated assets as at 31 December 2015

stated in RSD thousand

NO.	BALANCE SHEET POSITION	31/12/2015	31/12/2014	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31/12/2015
	ASSETS				
1.	Cash and assets held with the central bank	68,895,218	72,633,528	94.9%	16.6%
2.	Held-for-trading financial assets presented at fair value on the Income Statement	855,811	121,634	703.6%	0.2%
3.	Available-for-sale financial assets	130,330,094	98,958,788	131.7%	31.4%
4.	Financial assets held to maturity	109,306	390,015	28.0%	0.0%
5.	Loans and receivables from banks and other financial organisations	17,848,897	35,733,988	49.9%	4.3%
6.	Loans and receivables from customers	179,422,656	203,828,648	88.0%	43.3%
7.	Intangible assets	251,948	451,205	55.8%	0.1%
8.	Property, plant and equipment	6,392,007	6,605,496	96.8%	1.5%
9.	Investment properties	2,899,921	2,711,213	107.0%	0.7%
10.	Current tax assets	40,079	79,572	50.4%	0.0%
11.	Deferred tax assets	-	5	0.0%	0.0%
12.	Available-for-sale fixed assets and assets from discontinued operations	170,667	137,802	123.8%	0.0%
13.	Other assets	7,661,929	9,050,215	84.7%	1.9%
	TOTAL ASSETS (items 1 to 13)	**414,878,533**	**430,702,109**	**96.3%**	**100.0%**

In 2015, the Group's balance sheet assets were RSD 15,823.6 million or 3.7% lower year-on-year. Loans to customers declined by RSD 24,406.0 million or 12.0% from year-end 2014 and accounted for 43.3% of total balance sheet assets. This is seen as a result of the lack of sound demand and significant impairments of loans in 2015, which laid down solid foundations for future operations.

Available-for-sale financial assets saw a significant increase in the reporting period and were up RSD 31,371.3 million or 31.7%. Loan growth was achieved through investment in government securities.

Group's consolidated liabilities as at 31 December 2015

stated in RSD thousand

NO.	BALANCE SHEET POSITION	31/12/2015	31/12/2014	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31/12/2015
	LIABILITIES				
1.	Deposits and other obligations to banks, other financial organisations and the central bank	18,768,726	26,247,764	71.5%	4.5%
2.	Deposits and other obligations to other customers	319,334,622	321,094,208	99.5%	77.0%
3.	Subordinated obligations	6,077,962	6,036,680	100.7%	1.5%
4.	Provisions	2,212,728	1,732,069	127.8%	0.5%
5.	Current tax liabilities	11,905	14,726	80.8%	0.0%
6.	Deferred tax liabilities	139,534	160,991	86.7%	0.0%
7.	Other obligations	5,019,966	3,314,942	151.4%	1.2%
8.	**TOTAL OBLIGATIONS (items 1 to 7)**	**351,565,443**	**358,601,380**	**98.0%**	**84.7%**
	EQUITY				
9.	Share capital	40,034,550	40,034,550	100.0%	9.7%
10.	Loss / profit	(7,004,512)	6,925,972		-1.7%
11.	Reserves	30,282,987	25,140,140	120.5%	7.3%
12.	Interest without controlling rights	65	67	97.0%	0.0%
13.	**TOTAL EQUITY (items 9 to 12)**	**63,313,090**	**72,100,729**	**88.3%**	**15.3%**
14.	**TOTAL LIABILITIES**	**414,878,533**	**430,702,109**	**96.4%**	**100.0%**

The Group's total obligations at year-end 2015 amounted to RSD 351,565.4 million and accounted for 84.7% of total liabilities. Total obligations were RSD 7,035.9 million or 2.0% lower year-on-year. This reduction can for the most part be attributed to the outflow of deposits of other financial organisations.

Total equity as at 31 December 2015 amounted to RSD 63,313.1 million and accounted for 15.3% of total liabilities. Total equity was 12.2% or RSD 8,787.6 million lower y-o-y. This decline was the result of the loss posted in 2015.

Consolidated Balance Sheet as at 31 December 2015 – Banking Group members

stated in RSD thousand

	DESCRIPTION	Beograd	Budva	Banja Luka	KomBank INVEST	TOTAL THE GROUP
1	2	3	4	5	6	7
	Position / ASSETS					
1.	Cash and assets held with the central bank	63,523,715	1,495,679	3,875,824	-	68,895,218
2.	Investment in securities	128,024,439	1,937,561	1,219,150	114,061	131,295,211
3.	Loans to and receivables from other financial organisations	16,263,827	1,041,823	543,247	-	17,848,897
4.	Loans to and receivables from customers	162,742,565	6,229,312	10,450,779	-	179,422,656
5.	Intangible assets	216,830	16,898	18,220	-	251,948
6.	Property, plant and equipment	6,139,572	200,220	52,164	51	6,392,007
7.	Investment properties	2,744,026	-	155,895	-	2,899,921
8.	Other assets	6,140,735	1,576,307	154,590	1,043	7,872,675
9.	**TOTAL ASSETS (1 to 8)**	**385,795,709**	**12,497,800**	**16,469,869**	**115,155**	**414,878,533**
	Position / LIABILITIES					
10.	Deposits and other obligations to banks and other financial organisations	16,171,598	286,726	2,310,402	-	18,768,726
11.	Deposits and other obligations to other customers	300,005,903	9,632,142	9,696,577	-	319,334,622
12.	Subordinated obligations	6,077,962	-	-	-	6,077,962
13.	Provisions	2,109,020	63,231	39,735	742	2,212,728
14.	Other obligations	5,047,913	54,341	68,051	1,100	5,171,405
15.	**TOTAL OBLIGATIONS (10 to 14)**	**329,412,396**	**10,036,440**	**12,114,765**	**1,842**	**351,565,443**
16.	Total capital	62,532,754	646,423	152,352	-18,439	63,313,090
17.	**TOTAL LIABILITIES (15+16)**	**391,945,150**	**10,682,863**	**12,267,117**	**-16,597**	**414,878,533**

I	Assets by segments	**385,795,709**	**12,497,800**	**16,469,869**	**115,155**	**414,878,533**
-	***Structure of adjusted positions***					
-	Consolidated cash	-	-875,044	-104,349	-694	-980,087
-	Consolidated deposits made	-4,194	-	-	-7,630	-11,824
-	Consolidated loans granted	-573,380	-	-	-	-573,380
-	Consolidated interest receivable	-2,599	-	-	-2	-2,601
-	Consolidated deferred interest and other income	-79	-	-	1	-78
-	Consolidated equity holdings	-5,480,888	-	-	-	-5,480,888
II	**Assets on individual Balance Sheets**	**391,856,849**	**13,372,844**	**16,574,218**	**123,480**	**421,927,391**
I	**Liabilities by segments**	**391,945,150**	**10,682,863**	**12,267,117**	**-16,597**	**414,878,533**
-	***Structure of adjusted positions***					
-	Consolidated deposits	-987,717	-4,193	-	-	-991,910
-	Consolidated loans received	-	-	-573,380	-	-573,380
-	Consolidated interest payable and other payables	-2	-2	-2,599	-77	-2,680
-	Consolidated equity	1,720,563	-3,330,329	-3,731,122	-140,000	-5,480,888
-	Intra-group dividends	-644,543	644,543	-	-	-
II	**Liabilities on individual Balance Sheets**	**391,856,849**	**13,372,844**	**16,574,218**	**123,480**	**421,927,391**
III	Balance sheet sum in original currency	391,856,849 (000 RSD)	109,950 (000 EUR)	266,525 (000 BAM)	123,480 (000 RSD)	

5.2. Consolidated Income Statement

In the consolidation process it is necessary to exclude all positions on the individual Income Statements that stem from intra-group transactions, including: interest, fees, commissions and other income/expense.

In 2015, Komercijalna banka a.d. Group had a loss after tax of RSD 7,039.3 million. While the significant amount of loan impairment was the main contributor to the loss posted in 2015, it has also enabled the Bank to safeguard against credit risk without undermining the safety of its operations.

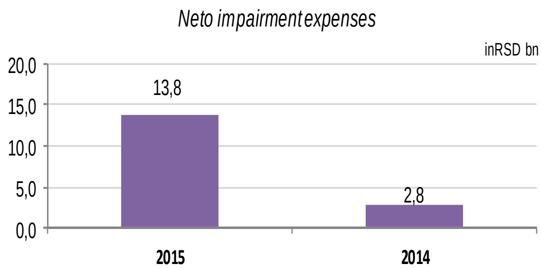
Consolidated Income Statement for the period 1 January - 31 December 2015

stated in RSD thousand

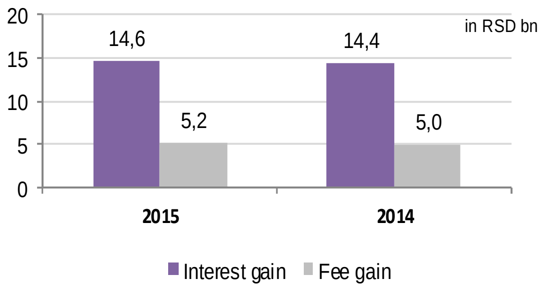
NO.	INCOME STATEMENT POSITION	31/12/2015	31/12/2014	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE			
1.1.	Interest income	20,292,958	22,791,487	89.0%
1.2.	Interest expenses	5,691,858	8,355,436	68.1%
1.	**Net interest income**	**14,601,100**	**14,436,051**	**101.1%**
2.1.	Fee and commission income	6,391,393	6,030,531	106.0%
2.2.	Fee and commission expenses	1,201,111	1,046,591	114.8%
2.	**Net fee and commission income**	**5,190,282**	**4,983,940**	**104.1%**
3.	Net profit from held-for-trading financial assets	4,264	7,022	60.7%
4.	Net profit from available-for-sale financial assets	19,334	79,245	24.4%
5.	Net expense from exchange differences and effects of currency clauses in agreements	6,366	200,284	3.2%
6.	Other operating income	471,037	478,844	98.4%
7.	Net expense from impairment of financial assets and credit risk-weighted off-balance sheet items	13,807,580	2,821,458	489.4%
8.	**TOTAL NET OPERATING INCOME**	**6,472,071**	**16,963,360**	**38.2%**
9.	Costs of salaries, allowances and fringe benefits	4,693,323	4,745,269	98.9%
10.	Depreciation costs	865,987	932,851	92.8%
11.	Other expenses	8,044,592	6,492,439	123.9%
12.	**LOSS / EARNINGS BEFORE TAX (ITEMS 1 TO 11)**	**(7,131,831)**	**4,792,801**	**-**
13.	Income tax	22,211	23,148	96.0%
14.	Deferred tax gain	114,819	47,547	241.5%
15.	Deferred tax loss	108	21,823	0.5%
16.	**LOSS / PROFIT AFTER TAX (ITEMS 12 TO 15)**	**(7,039,331)**	**4,795,377**	**-**
17.	Net profit/loss attributable to minority investors	(2)	-	-
18.	**Net profit/loss attributable to parent entity**	**(7,039,329)**	**4,795,377**	**-**
19.	Base earnings per share	(0,376)	0,253	-
20.	Diluted earnings per share	(0,376)	0,253	-

In the circumstances of lower demand for loans and declining interest rates, the Group's interest income in 2015 saw a year-on-year decline (-11.0%). However, as the reduction of interest expenses in the same period was even greater (-31.9%), the net year-on-year effect has been positive, with net interest income increasing by RSD 165 million or 1.1%.

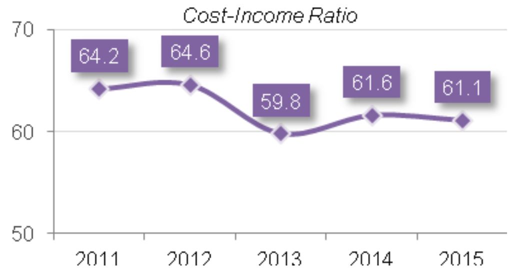
Net interest income also increased y-o-y by RSD 206 million (4.1%) due to an increase in fee and commission income by RSD 361 million (6.0%) and the slightly lower increase in fee expenses by RSD 155 million (14.8%).



At Group level, 2015 saw continued implementation of the active operating expense management policy aimed at cutting operating expenses. The increase in other expenses is mostly attributable to realised expenses for litigations and expenses from adjustment of interest and fees from previous years.

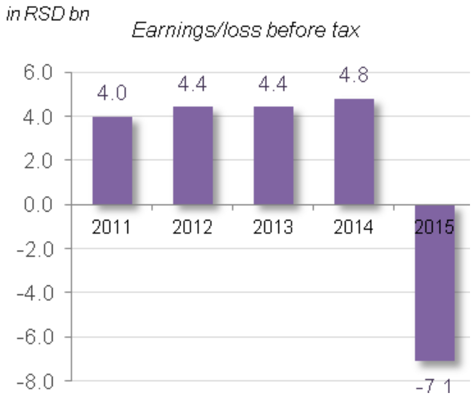


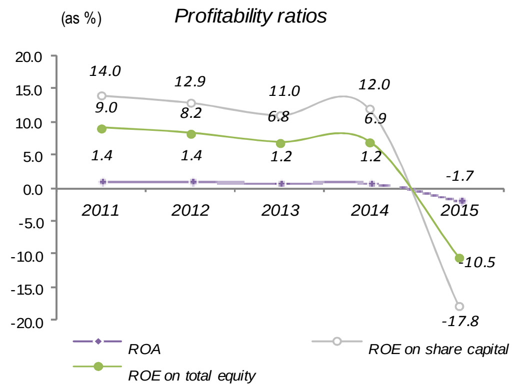
Expenses for impairment of financial assets and credit-risk weighted off-balance sheet liabilities incurred between January and December 2015 amounted to RSD 13,807.6 million, which was a 389.4% increase year-on-year. By posting these impairments, the Bank has protected its loan portfolio and ensured that its financial statements realistically reflect the actual situation.



At Group level, 2015 saw continued implementation of the active operating expense management policy aimed at cutting operating expenses. The increase in other expenses is mostly attributable to realised expenses for litigations and expenses from adjustment of interest and fees from previous years.

Between January and December 2015, the Group incurred operating loss of RSD 7,131.8 million. This loss was posted due to the application of restrictive credit risk assessment criteria relating to the appraisal of collateral held by Komercijalna banka a.d. Beograd and Komercijalna banka ad Banja Luka and appraisal of acquired assets of Komercijalna banka ad Budva. While the significant amount of loan impairment was the main contributor to the posted loss, it has also enabled the Bank to safeguard against credit risk without undermining the safety of its operations.





<u>*Consolidated Income Statement by Group members for the period 1 January - 31 December 2015*</u>

stated in RSD thousand

	DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL THE GROUP
1	2	3	4	5	6	7
1.	Interest income	18,847,353	647,408	786,062	12,135	20,292,958
2.	Interest expenses	-5,326,488	-169,238	-196,132	0	-5,691,858
3.	**Net interest income/expenses (1+2)**	**13,520,865**	**478,170**	**589,930**	**12,135**	**14,601,100**
4.	Fee income	5,998,900	155,637	229,416	7,440	6,391,393
5.	Fee expenses	-1,101,369	-35,139	-64,315	-288	-1,201,111
6.	**Net fee income/expenses (4+5)**	**4,897,531**	**120,498**	**165,101**	**7,152**	**5,190,282**
7.	Net result of investment in securities	-5,478	15,121	12,363	1,592	23,598
8.	Net result of loan impairment	-13,008,526	-556,515	-242,539	0	-13,807,580
9.	Other income/expenses	465,602	8,733	-9,838	174	464,671
I	**TOTAL NET OPERATING INCOME (3+6+7+8+9)**	**5,869,994**	**66,007**	**515,017**	**21,053**	**6,472,071**
10.	Costs of gross salaries	-4,121,590	-271,261	-289,208	-11,264	-4,693,323
11.	Other operating expenses	-8,155,300	-397,551	-352,104	-5,624	-8,910,579
12.	**Operating expenses (10+11)**	**-12,276,890**	**-668,812**	**-641,312**	**-16,888**	**-13,603,902**
II	**EARNINGS/LOSS BY SEGMENTS (3+6+7+8+9+12)**	**-6,406,896**	**-602,805**	**-126,295**	**4,165**	**-7,131,831**
II	**Earnings/loss by segments**	**-6,406,896**	**-602,805**	**-126,295**	**4,165**	**-7,131,831**
	Structure of adjusted positions					
-	Consolidated interest, net	-8,944	0	8,956	-12	0
-	Consolidated fees, net	-2,416	457	1,277	682	0
-	Other	0	0	0	0	0
-	Exchange differences in intra-group transactions	18,622	-1,634	-7,495		9,493
II	**Earnings/loss by segments**	**-6,414,158**	**-601,628**	**-129,033**	**3,495**	**-7,141,324**
III	**Earnings/loss in original currency**	**(6,414,158)** (000 RSD)	**(4,983)** (000 EUR)	**(2,090)** (000 BAM)	**3,495** (000 RSD)	

5.3. Redemption of Own Shares

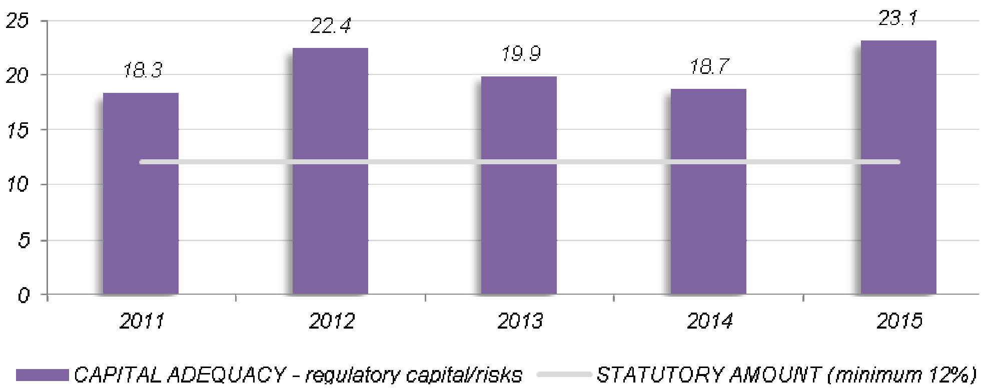
Group members have not redeemed own shares in the past financial year and do not intend to redeem own shares in the coming years.

5.4 Regulatory Requirements for KB Group

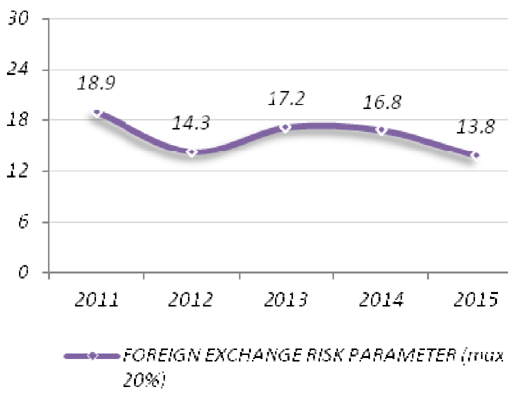
Under the Law on Banks: “The following shall be determined on a consolidated basis for a banking group:

- Capital adequacy ratio,
- Large exposures,
- Investment in other legal persons and fixed assets,
- Net open position.”

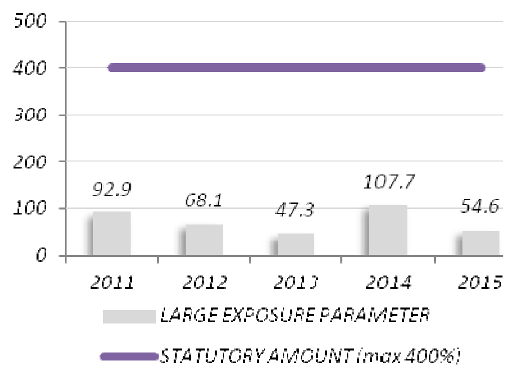
Capital adequacy



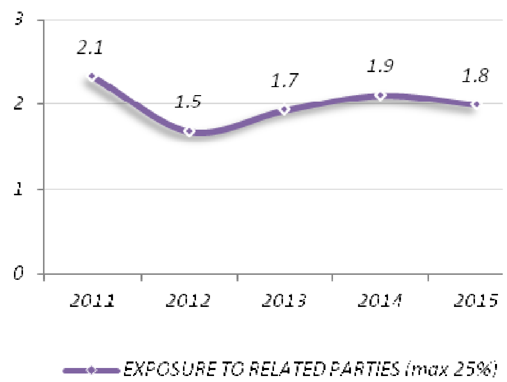
Foreign exchange risk parameter



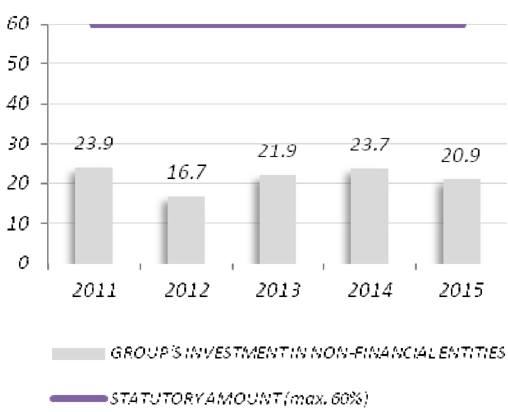
Large exposure paremeter



Related parties



Group investment



6. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has recognised the process of risk management as a key element of managing its operations, as exposure to risk is inherent to all banking operations and needs to be managed through risk identification, assessment, mitigation, monitoring and control and reporting, i.e. through risk limitation, as well as through reporting in accordance with the applicable strategies and policies.

The Group has implemented a comprehensive and reliable risk management system which includes: risk management strategies, policies and procedures; a relevant organisational structure; an effective and efficient system for managing all risks to which it is exposed; an appropriate internal control system; a relevant information system; and an appropriate internal capital adequacy assessment process.

The Group's Risk Management Strategy and Capital Management Strategy set the following risk management objectives: to minimise negative effects on profit and capital within the defined framework of acceptable risk levels; to maintain the required level of capital adequacy; and to develop activities in accordance with business opportunities and market developments to build a competitive edge.

Detailed reports and information on risk management are disclosed in Note 4 in the Notes to Consolidated Financial Statements.

In its operations, the Group is exposed in particular to the following types of risk:

- Credit risk and related risks;
- Liquidity risk;
- Market risk;
- Operational risk;
- Investment risk;
- Exposure risk, and
- Country risk, as well as any other risks that may arise in the Group's operations.

Exposure to Credit Risk

Credit risk is the risk of negative effects on the financial result and capital of the Group caused by a debtor's failure to settle its liabilities towards the Group's members. Credit risk is determined by the debtor's creditworthiness, timeliness of his debt repayment to the Bank and the quality of collateral.

The acceptable level of exposure to credit risk for the Group is defined by the Risk Management Strategy and depends on the structure of the Group's portfolio; it limits the negative effects on profit and minimises capital requirements for credit risk, default risk, delivery risk and counterparty risk in order to maintain capital adequacy at an acceptable level. The Group's member banks grant loans to those (corporate and retail) clients whom they consider to be creditworthy. On the other hand, the Group avoids high-risk investments, such as high-profit and high-risk projects, investment funds with a high-risk portfolio etc.

To safeguard against credit risk, the Group applies credit mitigation techniques by observing exposure limits, diversifying its investment and obtaining acceptable collateral as a secondary source of loan recovery. The Group strives to deal only with creditworthy clients, assesses the creditworthiness of every client at the time of loan application and monitors debtors, loans and collateral in order to be able to undertake relevant debt collection activities.

The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis. Collateral is obtained after the signing of an agreement, but before loan disbursement.

Collateral appraisal and management are governed by the Group's internal regulation.

The Group outsources collateral appraisal to authorised appraisers in order to minimise the potential risk of unrealistic appraisals, while the properties, commodities and other pledged chattels must be insured with an insurance company acceptable to the Group and the insurance policies must include transfer restrictions for the benefit of Group members.

To safeguard against changes in the market value of collateral, the appraised value is adjusted by defined impairment percentages according to the type of collateral and location of the property, which are subject to review and revision at least once a year.

The Group pays special attention to monitoring its collateral and obtains new appraisals, as well as additional collateral, for any clients with identified operating problems, as well as for any clients whose collateral coverage ratio has been reduced due to a decline in the value of the obtained collateral.

The Group performs analysis/quantitative and qualitative measurement and assessment of credit risk. The process of credit risk measurement is based on measuring the risk level assigned to individual loans according to the internal rating system and in accordance with the applicable regulations. Through monitoring and control of its portfolio as a whole and by specific segments, the Group makes comparisons with earlier periods, identifies trends and determines the underlying causes for changes in credit risk levels. The Group also monitors asset quality indicators (NPL trends, loan loss provision coverage ratio etc.), as well as exposure according to the regulatory and internal limits. The process of loan quality monitoring allows the Group's members to assess potential loss as a result of the risks to which they are exposed and to undertake remedial action.

At the initiative of the National Bank of Serbia, with a view to further strengthening of the supervisory and regulatory framework, improving the framework for addressing the issues faced by troubled banks and undertaking efforts to address the high level of non-performing loans in the banking sector, in 2015 the Parent Bank was subject to Special Diagnostic Studies (SDS) conducted by an audit firm's consultants.

Exposure to Liquidity Risk

Liquidity risk is the risk of negative effects on the Group's financial performance and capital due to its failure to settle its liabilities as they fall due. Liquidity risk manifests itself as difficulty in settling the Group's liabilities as they fall due meeting when liquidity reserves and insufficient and the inability to cover unexpected outflows and other liabilities and obtain liquid assets on short notice without incurring major expenses.

In their operations, the Parent Bank and Group members adhere to the core principles of liquidity by generating a sufficient level of liquid assets to cover their liabilities in the short term, i.e. they adhere to the principle of solvency by forming an optimum structure of own and borrowed sources of finance and forming sufficient liquidity reserves without jeopardising the planned return on equity.

Liquidity risk manifests itself as the Group's failure to settle its liabilities as they fall due. Liquidity risk can take the form of the sources of payment risk or the market aspect of liquidity risk. The sources of payment aspect of liquidity risk refers to the structure of liabilities and manifests itself as a potentially material increase in the share of unstable sources or short-term sources or their concentration. On the other hand, liquidity risk also manifests itself as a deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices, i.e. inability of the Group to convert certain parts of its assets into liquid assets on short notice.

The Parent Bank and the Group members undertake preventive activities to minimise their exposure to liquidity risk.

Exposure to Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial performance and capital of the Group caused by adverse changes in interest rates, to which the Bank is exposed on the basis of items recorded in the bank ledger. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.The aim of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of its impact on financial performance and economic value of equity by applying an appropriate policy of maturity matching in the repricing period and by matching sources of finance with loans by types of interest rates and maturity.

The Parent Bank and the Group members timely identify the causes of any current exposure to interest rate risk and assess the factors of potential future exposure to this risk.

Exposure to Foreign Exchange Risk

The Group is exposed to foreign exchange risk, which manifests itself as the risk of negative effects on its financial performance and capital due to foreign exchange volatility, changes in the value of national currency relative to foreign currencies or changes in the value of gold or other precious metals.

To minimise its exposure to foreign exchange risk, the Group diversifies the currency structure of its portfolio and the currency structure of labilities and matches open positions by specific currencies.

The Group is required to bring the volume of its operations in compliance with the parameters set out in the Law on Banks. As of 31 December 2015, all ratios complied with the statutory parameters.

Exposure to Operational Risks

Operational risk is the risk of potential negative effects on the Group's financial performance and capital due to omissions of its employees, inadequate internal procedures and processes, inadequate management of information systems and other systems at the Group's member banks or due to unforeseen external events. Operational risk also includes legal risk, which is the risk of potential negative effects on the Group's financial performance and capital due to lawsuits or out-of-court proceedings. The Group undertakes specific activities to mitigate operational risks and proactively respond to potential operational risk events through continual monitoring of all activities by implementing an appropriate and reliable information system designed to improve business practices and optimise the Group's operating processes. To minimise legal risk and its effects on financial performance, the Group continues improving its business practice as it pertains to timely provisioning against lawsuits against the Group's member banks, based on an assessment of anticipated future loss on this basis.

Large Exposures

Large exposure of the Group to a single person or a group of related parties, including the Bank's related parties, is defined as any exposure the value of which exceeds 10% of the Group's equity.

Exposure to Country Risk

Country risk is the risk associated with the country of origin of a person to whom the Group is exposed, i.e. the risk of potential negative effects on the Group's financial performance and capital due to the Group's inability to collect its receivables from debtors for reasons associated with political, economic or social circumstances in the debtor's country of origin.

7. CORPORATE SOCIAL RESPONSIBILITY

Environmental protection

Having approved Politics and Procedures of Environmental and Social protection at the level of the Bank Group, the Group defined standards for identification of risks and management of the environment and social protection within the process of approval and monitoring of lending. In the same vein, the Group has developed activities in the field of environmental and protection of civil and labor rights, applying the best practice of sustainable financing. The internal acts define the procedures for resolution and provision of response to complaints on direct and indirect impact of business activities on environment and the community. By contracting credit lines for financing investments into energy efficiency and development of renewable energy, loans are approved which ensure energy from green sources resulting in lower carbon dioxide emissions.

Overview of credit lines:

GGF	EUR 23.000.000 (Financing of energy efficiency projects and renewable energy sources)
EFSE	EUR 15.000.000 (Lending to ultimate users – physical persons for improvement of energy efficiency of housing buildings)
EBRD	EUR 10.000.000 (Financing of energy efficiency projects and use of renewable energy in the private sector – small and medium enterprises and local self-governance)

Through categorization of lending, depending on the risk level of environmental and social surrounding, the Group estimates the percentage of financing the activities which might have detrimental impact. The Group continuously follows up emergencies with their clients which could have negative environmental impact or harm health or safety or the community as a whole and reports it regularly to the Bank management bodies and the Shareholders.

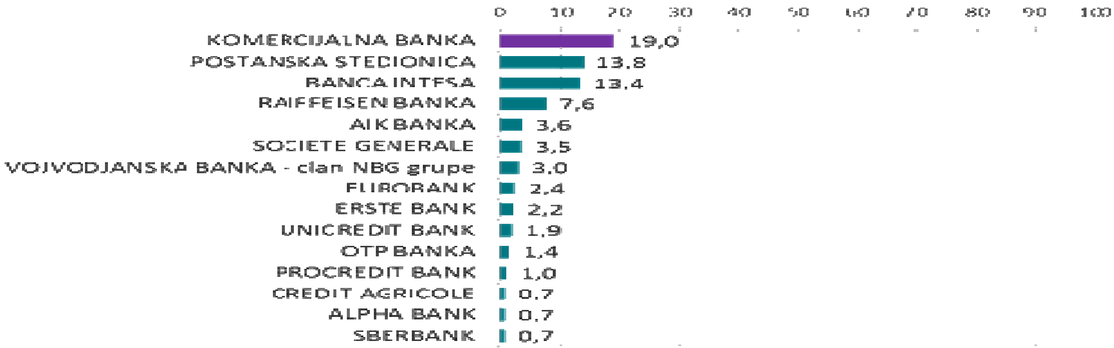
With the view of protection of environment and minimizing possibilities for occurrence of events of detrimental impact to the environment, health and safety or the community as a whole, the Bank finances no clients whose core activity is connected with the manufacturing or trade of arms and ammunition, alcoholic beverages', radioactive material and other technologies that might have negative impact on the environment in compliance with the standards of good international practice in this area.

Research and development

The Bank group continuously monitors the activities of banking products, with the help of available human resources, and hires specialized, independent polling agencies.

Market research: IPSOS Strategic Marketing, Banking omnibus, November 2015.

The Best Bank in Serbia – Top 15



The Agencies provide the data about satisfaction of clients, and according to the analyses, the Group is a leader in the brand recognition and quality of service.

Polling results are helpful in the process of business decision making, particularly important in core segments of development of new and improvement and modification of the existing products and services.

In the continuous process of follow up of market signals and needs of customers and potential clients, the business sectors in the Group offered new and/or upgraded some types of credits in retail and micro client segments and developed, satisfactory, under the circumstances, a whole range of services in electronic banking, pay and credit cards.

The results of research and development have been implemented in the Strategy and Business plan of the Group.

Humanitarian and other actions – socially responsible conduct

Special contribution to preservation and value image was provided by CSR activities, carefully selected and supported by the Group in close cooperation with its partners.

ZAJEDNO ZA BEBE

In the previous year the Parent bank directed most of its CSR engagement to the action "Together for Babies, contributing considerably to the affirmation of the Bank in CSR activities as a leader and initiator of such and similar projects. Thanks to that action, action, carried out in cooperation with the Fund B92, in 2015 resources were pooled for equipment of maternity wards in Aleksinac, Valjevo, Gračanica and Kruševac.

The Bank offered support to our athletes as well, who won the medals at the European and world championships, and supported the preparations for Olympic games in Brazil: Milica Mandić, Ivana Španović, Tijana Bogdanović, etc.

The Parent Bank assisted a number of charity, cultural, arts and sports projects and actions, and particularly those for the young and gifted (KomBank Art hol, School of talents of Komercijalna banka, Young literary super talents).

KOMBANK ARTHOL

CSR activities of the Parent bank have bee coordinated with subsidiaries of the Bank in Montenegro and Republic of Srpska.

Komercijalna banka Budva continued support of NGO "Food bank" and helps the most deprived families in Montenegro, awards the most talented pupils of elementary schools in Montenegro and all the babies born during the Week of savings.

Komercijalna banka Banja Luka in 2015 supported young athletes and Football school for children. It actively participated in the Humanitarian supper hosted by the President of the Republic, collecting money for the children suffering from rare diseases, and support was provided also to the Association of children suffering from malign diseases "Iskra".

Rules of corporate governance

The rules of corporate management are based on the relevant legal regulations (Law on Banks and Company Law). The Code of corporate governance set out the principles of corporate practice, which are observed in business conduct and compliance of the holders of corporate governance. The purpose of the Code is introduction of good business customs and establishment of high standards in the area of corporate governance, which should ensure consolidation of thrust of the Shareholders, investors, clients and other stakeholders. Good practice of corporate governance basically enables consistence of control system, protection of Shareholders' interest, timely provision of all relevant information about the operations and complete transparence via public access to the company financial statements.

The Parent Bank applies the Code of corporate governance of the Serbian Chamber of Commerce in its operations, which was adopted by the Assembly of the Chamber.

The Komercijalna banka ad Budva applies in it operations the Code of business ethics, which was adopted by the Assembly of the Chamber of Commerce of Montenegro (Official Gazette of RMG, no. 45/11 of 09.09.2011.), which stipulates that the provisions are obligatory for all business entities in Montenegro.

The Komercijalna banka ad Banja Luka applies in its operations the Standards of corporate governance promulgated by the Securities Commission of the Republic of Srpska, further to Article 309 of the Company Act (Official Gazette of Republic of Srpska no. 127/98, 58/09 and 100/11) and Article 260 of the Law on securities Market (Official Gazette of Republic of Srpska no. 92/06 and 34/09).

KomBank INVEST a.d. Beograd applies the Rules of Conduct approved by Securities Commission further to Article 17 of the Law on Investment funds (Official Gazette of RS, no. 46/2006, 51/2009,31/2011 and 115/2014).

Competences and authorities of all the bodies of the Group are grounded on corresponding legal regulations and defined in internal acts. Rules of corporate governance are implemented through internal acts and there are no departures in their implementation.

8. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

Since 1 January 2016 till the end February 2016, two General Meetings of the Parent Bank KB Beograd Shareholders have been held:

- Regular General Meeting of Shareholders was held 22 January 2016.

  The meeting approved the following decisions: Information about Article 77 of the Law on Banks and Report in compliance with Article 78 of the Law on Banks;

- An extraordinary General Meeting of Shareholders of the Parent Bank was held 27 January 2016. The meeting approved the following decision: decision relieving and appointing member and chairman of the Board of Directors of Komercijalna banka a.d. Beograd.
- During the month of March 2016, the Bank applied to EBRD for earlier repayment of a credit line in use in the amount of EUR 17.1 million and simultaneous signing of contract on new credit line of EUR 30 million under favorable conditions, which is going to take place aat the end of April 2016.

Other major event after the end of the business year was disclosed in the Notes to consolidated financial statements – Note no. 41.

9. PLANNED FUTURE DEVELOPMENT

The Group promulgates the Strategy and Business Plan for the future at the level of subsidiaries, depending on local operating conditions. The Strategies and Business plan were adopted at the level of the members of the Group, for the period of next three years. Depending on the complex macroeconomic conditions the Group continues its operations with conservative approach to risk. The focus of the Group shall remain on the achievement of long-term competitiveness. Geographically, members shall attempt to allocate the funds most profitably depending on the situation in the local markets. Business policies have not been changed relative to the previous business year at the level of individual commercial banks, members of the Group. The Group is facing the privatization process in the period to come but also the process of strengthening of regional presence.

Business environment, locally and regionally in the period to come will be marked by the onset of economic recovery but also the growth of NPLs. The Banking sector in Serbia was characterized by implementation of Special due diligence (PDI), which in addition to the systemic weaknesses (quality of assessment of collaterals, inefficiency of bankruptcy procedures and financial restructuring), revealed that the banking sector is still adequately capitalized and steady in the future. In the period to come a change of the business model is expected in the individual members of the Group KB in the expectation that the operations will mostly depend on the implementation of reforms and recovery of domestic market. The implementation of the Adopted Strategy and Business Plan is going on through the definition of business targets by business lines, along clear identification of policies for achievement of the set goals, needed resources and activities to be undertaken towards the accomplishment of the set objectives.

Pressure on net profit from interest rates and interest margins will continue in future along with the lowering of deposit rates. High uncertainty is around the consequences of structural reforms of public finance in the future which will exert additional pressure on aggregate demand. Operating costs of banking industry remain at the high level; hence their revision is expected in the future.

The most important changes in the regulations and supervision of the Parent bank will come from the implementation of Basle III standards, in the part of regulatory capital, which will influence capital adequacy ratio. Another change will be legally required liquidity. Those changes will affect additional consolidation of capital and improvement of the risk management process but also cost of operations.

Steady and sustainable operations of all Group members have been in the focus of setting the main strategic goals for the period to come, primarily through:

- Defense of interest rate margin.
- Rising of efficiency and
- Maintenance of credit portfolio quality before growth.

The mission and long-term option of KB Beograd in the period to come shall remain to be:

- Universal bank with individual focus on corporate and retail;
- Leading Serbian bank with regional presence.

Strategic goals may be defined as:

- Maintenance of stability of operations and reputation,
- Growth of value of the bank facing privatization,
- Sustainable growth of business and profitability.

The guiding principles of the Parent bank but of the other members, in setting out the goals are :

- Stability and long term operations and value for the Shareholders;
- Prudence;
- Conservative approach.

Planned performance by Group members in the next three years:

GROUP MEMBERS	KB BEOGRAD			KB BANJA LUKA[8]			KB BUDVA		
Plan	2016	2017	2018	2016	2017	2018	2016	2017	2018
Assets growth	1,2%	3,2%	4,7%	2,2%	3,7%	4,1%	5,8%	2,8%	3,0%
ROE on share capital	12,9%	16,7%	22,1%	1,8%	2,6%	3,4%	1,0%	2,9%	4,7%
ROE on total capital	8,1%	9,9%	12,2%	1,8%	2,4%	3,1%	1,0%	2,9%	4,4%
ROA	1,3%	1,7%	2,1%	0,4%	0,6%	0,7%	0,2%	0,7%	1,0%
CIR	56,4%	53,8%	47,9%	79,2%	74,3%	72,0%	80,7%	75,7%	71,4%
Interest rate margin on total assets	3,4%	3,5%	3,8%	3,6%	3,8%	3,9%	4,1%	4,2%	4,3%

KomBank INVEST ad Beograd also has the approved Strategy and Business Plan for three-year period.

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

Jelena Đurović
Executive Board member

Alexander Picker,
Executive Board Chairman

8 Strategy and Business Plan of KB Banja Luka will be adopted at the next General Meeting of Shareholders of KB Banja Luka

KOMERCIJALNA BANKA
AD Beograd

Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 344 13 35
Matični broj: 07737068
PIB: SR 100001931
PDV broj: 134968641
Šifra delatnosti: 6419
Agencija za privredne registre: 10156/2005
Broj računa: 908-20501-70
SWIFT: KOBBRSBG
E-mail: posta@kombank.com
www.kombank.com

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 2015.

KOMERCIJALNA BANKA AD BEOGRAD

Executive Director for Finance and Accounting	**Member of the Bank's Executive Board**
Savo Petrović	**Jelena Đurović**

KOMERCIJALNA BANKA AD BEOGRAD

BOARD OF DIRECTORS
No. 8440/2.2
Belgrade 20.04.2016

Pursuant to Article 27 of the Articles of Association of Komercijalna banka AD Beograd and in accordance with Articles 29, 27, and 33 of the Law on Accounting, on 20.04.2016 the Board of Directors of the Bank adopted the **draft**

D E C I S I O N
ON ADOPTING THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE GROUP KOMERCIJALNA BANKA AD BEOGRAD FOR 2015

I

Annual Report for the Group Komercijalna banka AD Beograd for 2015 is hereby adopted.

II

Consolidated financial statements for the Group Komercijalna banka AD Beograd are hereby adopted with the external auditor's opinion for **2015:**

1. Balance-Sheet – consolidated as of 31.12.2015,
2. Profit&Loss Account – consolidated for the period between 01.01. and 31.12.2015,
3. Statement of Other Comprehensive Income – consolidated for the period between 01.01. and 31.12.2015,
4. Cash Flow Statement – consolidated for the period between 01.01. and 31.12.2015,
5. Statement of Changes in Equity – consolidated for the period between 01.01. and 31.12.2015 and
6. Notes to Consolidated Financial Statements for 2015,
   in the wording that forms an integral part of this decision.

III

This decision is submitted to the General Meeting of the Bank's Shareholders for adoption.

CHAIRPERSON OF
THE BOARD OF DIRECTORS

Vladimir Krulj, PhD

• **Additional information concerning the adoption of consolidated financial statements for 2015**

Decision on adoption of consolidated financial statements and adoption of the Report on the audit of the consolidated financial statements will be adopted at the General Meeting of Bank's Shareholders, which will be held on 24 May of the current year. The adopted decision will be submitted to the Securities Commission as soon as possible.

KOMERCIJALNA BANKA AD BEOGRAD

Member of the Bank's Executive Board	Executive Board Chairman
Jelena Đurović	**Alexander Picker**