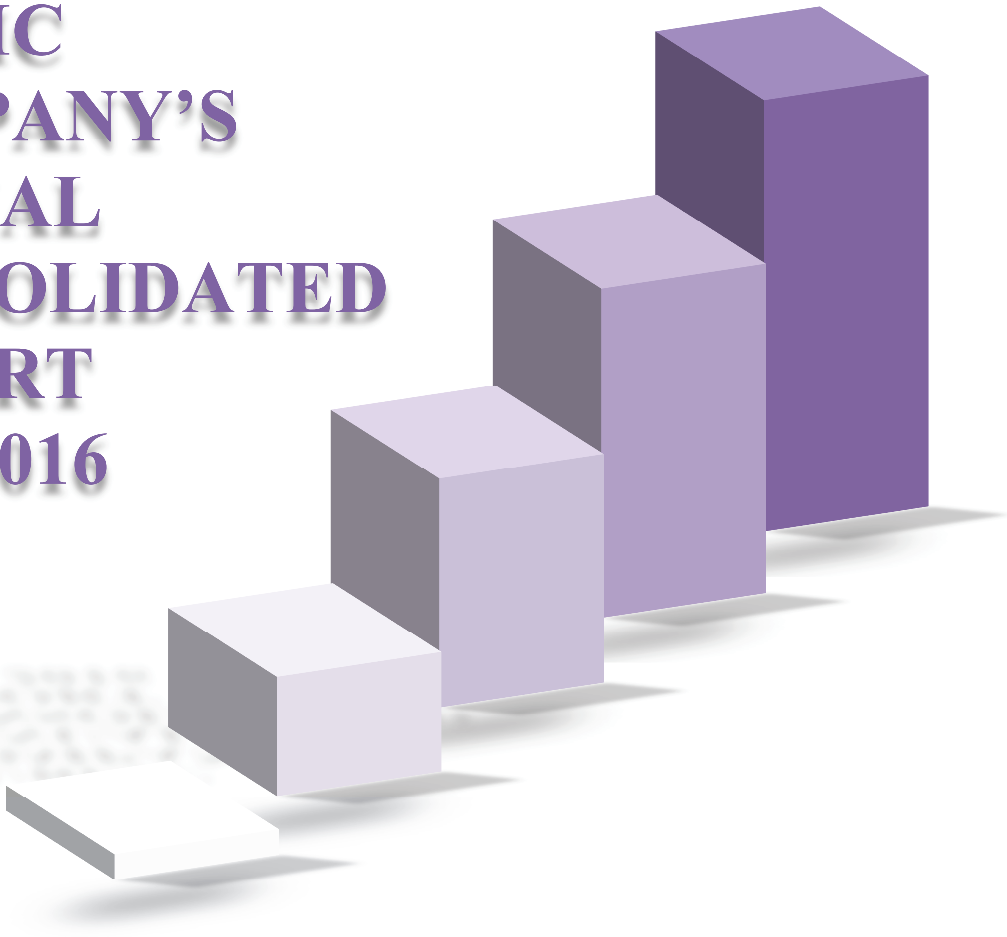
KOMERCIJALNA BANKA AD BEOGRAD

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2016



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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 31.12.2016

(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	3j; 19	61.919.102	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	3к; 20	247.862	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	3љ; 21	139.808.210	131.913.119	98.958.788
124, 224, part of 129 and part of 229	Financial assets held to maturity	0006	3љ; 22	368.999	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	3л; 23	43.216.681	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	3л; 24	166.401.008	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		-	-	-
33	Intangible investments	0013	3н; 25	394.546	251.948	451.205
34	Property, plant and equipment	0014	3м; 26	6.251.187	6.392.007	6.605.496
35	Investment property	0015	3њ; 27	2.608.051	2.899.921	2.711.213
034 and part of 039	Current tax assets	0016	18	7.283	40.079	79.572
37	Deferred tax assets	0017	18	-	-	5
36	Non-current assets held for sale and discontinued operations	0018	28	349.523	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	3љ; 29	7.255.156	7.661.929	9.050.215
	TOTAL ASSETS (from 0001 to 0019)	0020		**428.827.608**	**416.461.558**	**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	3c; 30	9.822.519	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	3c; 31	345.135.959	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	3c; 32	6.178.390	6.077.962	6.036.680
450, 451, 452, 453 and 454	Provisions	0409	3т; 33	2.021.507	2.212.728	1.732.069
46	Liabilities under assets held for sale and discontinued operations	0410		-	-	-
455	Current tax liabilities	0411	18	9.027	11.905	14.726
47	Deferred tax liabilities	0412	18	53.457	341.247	160.991
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0413	34	6.314.329	5.019.966	3.314.942
	TOTAL LIABILITIES (from 0401 to 0413)	0414		**369.535.188**	**351.767.156**	**358.601.380**
80	CAPITAL Share capital	0415	3ф; 35	40.034.550	40.034.550	40.034.550
128	Own shares	0416		-	-	-
83	Profit	0417	35	545.985	195.933	6.925.972
84	Loss	0418	35	7.048.674	6.962.172	-
81 and 82 – credit balance	Reserves	0419	3ф; 35	25.760.493	31.426.026	25.140.140
81 and 82 – debit balance	Unrealized losses	0420		-	-	-
	Non-controlling participation	0421	3ф; 35	66	65	67
	TOTAL CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422		**59.292.420**	**64.694.402**	**72.100.729**
	TOTAL CAPITAL SHORTFALL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423		-	-	-
	TOTAL LIABILITIES (0414 + 0422 - 0423)	0424		**428.827.608**	**416.461.558**	**430.702.109**

In ____________

Date _____________

Legal representative of the bank

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

INCOME STATEMENT - CONSOLIDATED

in the period from January 1st to December 31st, 2016

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3в; 8	17.934.819	20.531.231
60	Interest expenses	1	0	0	2	3в; 8	3.478.486	5.691.858
	Net interest income (1001 - 1002)	1	0	0	3		**14.456.333**	**14.839.373**
	Net interest expenses (1002 - 1001)	1	0	0	4		-	-
71	Income from fees and commissions	1	0	0	5	3г; 9	6.643.289	6.391.393
61	Expenses on fees and commissions	1	0	0	6	3г; 9	1.549.766	1.201.111
	Net income from fees and commissions (1005 - 1006)	1	0	0	7		**5.093.523**	**5.190.282**
	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	3д; 10	76.323	4.264
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	194.568	19.334
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	3б; 12	6.076	-
68-78	Net exchange rate losses and losses on agreed currency clause	1	0	1	8	3б; 12	-	6.366
723-623	Net gains from investments in associated companies and joint ventures	1	0	1	9	13	5.143	-
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	3е; 3т; 13	607.976	471.037
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	14	13.079.497	13.807.580
	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		**7.360.445**	**6.710.344**

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	1025		-	-
63, 655, 755	Salaries, salary compensations and other personal expenses	1026	3ћ; 15	5.059.469	4.693.323
642	Depreciation costs	1027	3м; 16	729.726	865.987
64 (except 642), 624, 652, 653, 66 (except 660 and 669), 672, 673	Other expenses	1028	17	8.104.936	8.044.592
	PROFIT BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029		-	-
	LOSSES BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030		**6.533.686**	**6.893.558**
850	Profit tax	1031	3з; 18	21.318	22.211
861	Gains from deferred taxes	1032	3з; 18	315.718	114.819
860	Losses on deferred taxes	1033	3з; 18	1.844	108
	PROFIT AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034		-	-
	LOSSES AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035		**6.241.130**	**6.801.058**
769-669	Net profit from discontinued operations	1036		-	-
669-769	Net losses on discontinued operations	1037		-	-
	RESULT FOR THE PERIOD – PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038		-	-
	RESULT FOR THE PERIOD – LOSSES (1034 - 1035 + 1036 - 1037) < 0	1039		**6.241.130**	**6.801.058**
	Profit belonging to a parent entity	1040		-	-
	Profit belonging to non-controlling owners	1041		-	-
	Losses belonging to a parent entity	1042		**6.241.130**	**6.801.056**
	Losses belonging to non-controlling owners	1043		-	**2**
	EARNINGS PER SHARE				
	Basic earnings per share (in dinars, without paras)	1044	35.2	-	-
	Diluted earnings per share (in dinars, without paras)	1045	35.2	-	-

In __________

Date __________________

Legal representative of the bank

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

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

in the period from January 1st to December 31st, 2016

(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	2 0 0 1		-	-
	LOSS FOR THE PERIOD	2 0 0 2		6.241.130	6.801.058
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	2 0 0 3	35.	178.371	-
820	Decrease in revaluation reserves arising from intangible investments and fixed assets	2 0 0 4	35.	-	234
822	Actuarial gains	2 0 0 5	34;35.	1.665	-
822	Actuarial losses	2 0 0 6	34;35.	4.011	39.843
825	Positive effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2 0 0 7		-	-
825	Negative effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2 0 0 8		-	-
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	2 0 0 9	35.	683.461	2.044.882
823	Unrealized losses on securities available for sale	2 0 1 0	35.	60.257	34.281
824	Gains from cash flow hedges	2 0 1 1		-	-
824	Losses on cash flow hedges	2 0 1 2		-	-
826	Cumulative translation gains for foreign operations	2 0 1 3	35.	87.708	23.939
826	Cumulative translation losses for foreign operations	2 0 1 4		-	-
826	Positive effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2 0 1 5		-	-
826	Negative effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2 0 1 6		-	-
82	Tax gains pertaining to other comprehensive income for the period	2 0 1 7	35.	2.386	5.678
82	Tax losses pertaining to other comprehensive income of the period	2 0 1 8	35.	116.050	300.593
	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	2 0 1 9		**773.273**	**1.699.548**
	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	2 0 2 0		-	-
	TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2 0 2 1		**-**	**-**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2 0 2 2		**5.467.857**	5.101.510
	Total positive comprehensive income for the period belonging to a parent entity	2 0 2 3		**-**	**-**
	Total positive comprehensive income for the period belonging to non-controlling owners	2 0 2 4		-	-
	Total negative comprehensive income for the period belonging to a parent entity	2 0 2 5		5.467.857	5.101.508
	Total negative comprehensive income for the period belonging to non-controlling owners	2 0 2 6			2

In _______________,
Date ____________

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

CASH FLOW STATEMENT - CONSOLIDATED
in the period from 01.01. to 31.12.2016.

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A.	CASH FLOW FROM OPERATING ACTIVITIES			
I.	Cash inflow from operating activities (from 3002 to 3005)	3001	25.910.395	26.842.635
1.	Interest	3002	18.999.073	20.361.516
2.	Fees	3003	6.645.894	6.288.891
3.	Other operating income	3004	249.716	188.652
4.	Dividends and profit sharing	3005	15.712	3.576
II.	Cash outflow from operating activities (from 3007 to 3011)	3006	17.780.872	18.889.338
5.	Interest	3007	4.611.405	6.307.483
6.	Fees	3008	1.548.563	1.204.621
7.	Gross salaries, salary compensations and other personal expenses	3009	4.975.861	4.653.121
8.	Taxes, contributions and other duties charged to income	3010	850.525	878.747
9.	Other operating expenses	3011	5.794.518	5.845.366
III.	Net cash inflow from operating activities before an increase or decrease in lending and deposits (3001 - 3006)	3012	**8.129.523**	7.953.297
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	**39.021.996**	25.371.475
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	25.371.475
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	12.160.679	-
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	26.861.317	-
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	15.888.347	10.665.402
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	15.888.347	-
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
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	31.263.172	22.659.370
VIII.	Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22.	Profit tax paid	3030	32.936	22.247
23.	Dividends paid	3031	119.477	403
IX.	Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	31.110.759	22.636.720
X.	Net cash outflow for operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
B.	CASH FLOW FROM INVESTING ACTIVITIES			
I.	Cash inflow from investing activities (from 3035 to 3039)	3034	40.753.985	30.082.331
1.	Investment in investment securities	3035	40.739.298	30.052.943
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	1.092	27.782
4.	Sale of investment property	3038	13.595	1.606
5.	Other inflow from investing activities	3039	-	-
II.	Cash outflow for investing activities (from 3041 to 3045)	3040	58.443.427	57.516.667
6.	Investment into investment securities	3041	57.848.368	57.118.678
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	595.059	397.989
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	17.689.442	27.434.336
C.	CASH FLOW FROM FINANCING ACTIVITIES			
I.	Cash inflow from financing activities (from 3049 to 3054)	3048	124.293.315	122.582.139
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	124.293.315	122.582.139
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	136.856.025	127.150.287
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	136.856.025	127.150.287
10.	Issuance of own securities	3059	-	-
11.	Other outflow for financing activities	3060	-	-
III.	Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV.	Net cash outflow for financing activities (3055 - 3048)	3062	12.562.710	4.568.148
D.	TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	229.979.691	204.878.580
E.	TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	229.121.084	214.244.344
F.	NET INCREASE IN CASH (3063-3064)	3065	858.607	-
G.	NET DECREASE IN CASH (3064-3063)	3066	-	9.365.764
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	38.666.685	47.896.270
I.	EXCHANGE RATE GAINS	3068	963.271	1.375.219
J.	EXCHANGE RATE LOSSES	3069	826.820	1.239.040
K.	CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	39.661.743	38.666.685

In ________

Date ____________

Legal representative of the bank

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

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED
in the period from 01.01. to 31.12.2016.

(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	17.191.528	4029	-	4057	22.843.084	4085	21.117.846	4113	4.260.173	4127	237.874	4141	6.925.972	4175	-	4209	72.100.729	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	17.191.528	4032	-	4060	22.843.084	4088	21.117.846	4116	4.260.173	4130	237.874	4144	6.925.972	4178	-	4210	72.100.729	4216	-
5.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4117	1.698.807	4131	2.140	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	1	4132	34.374	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	-	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	6.801.058	x	x	x	x
9.	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4146	-	4180	-	x	x	x	x
10.	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4147	-	4181	-	x	x	x	x
11.	Transactions with owners recognized directly in equity – increase	4005	-	4033	-	4061	-	4089	-	x	x	x	x	4148	-	4182	-	x	x	x	x
12.	Transactions with owners recognized directly in equity – decrease	4006	-	4034	-	4062	-	4090	-	x	x	x	x	4149	-	4183	-	x	x	x	x
13.	Distribution of profit – increase	4007	-	4035	-	4063	-	4091	4.616.652	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	4.617.887	4185	1.235	x	x	x	x
15.	Dividend payments	4009	-	4037	-	4065	-	4093	-	x	x	x	x	4152	1.962.751	4186	-	x	x	x	x
16.	Other – increase	4010	-	4038	-	4066	-	4094	2.662	x	x	x	x	4153	197.599	4187	162.351	x	x	x	x
17.	Other – decrease	4011	-	4039	-	4067	-	4095	-	x	x	x	x	4154	347.000	4188	-	x	x	x	x
18.	**Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0**	4012	-	4040	-	4068	-	4096	4.619.314	x	x	x	x	4155	-	4189	161.116	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	6.730.039	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	25.737.160	4119	5.958.979	4133	270.108	4157	195.933	4191	6.962.174	4211	64.694.402	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	25.737.160	4120	5.958.979	4134	270.108	4158	195.933	4192	6.962.174	4212	64.694.402	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	25.737.160	4123	5.958.979	4137	270.108	4161	195.933	4195	6.962.174	4213	64.694.402	4219	-
25.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4124	548.165	4138	243.119	x	x	x	x	x	x	x	x
26.	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4125		4139	40.170	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	6.241.130	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	131.550	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		x	x	x	x	4167	-	4201	-	x	x	x	x
34.	Distribution of profit and/or coverage of losses – decrease	4022	-	4050	-	4078	-	4106	6.428.819	x	x	x	x	4168	161.223	4202	6.458.492	x	x	x	x
35.	Dividend payments	4023	-	4051	-	4079	-	4107	-	x	x	x	x	4169	23.531	4203	-	x	x	x	x
36.	Other – increase	4024	1	4052	-	4080	-	4108	12.170	x	x	x	x	4170	403.256	4204	303.862	x	x	x	x
37.	Other – decrease	4025	-	4053	-	4081	-	4109	-	x	x	x	x	4171	-	4205	-	x	x	x	x
38.	**Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0**	4026	1	4054	-	4082	-	4110	-	x	x	x	x	4172	218.502	4206	-	x	x	x	x
39.	**Total transactions with owners (No 31-32+33-34-35+36- 37) < 0**	4027	-	4055	-	4083	-	4111	6.416.649	x	x	x	x	4173	-	4207	6.154.630	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	17.191.529	4056	-	4084	22.843.084	4112	19.320.511	4126	6.507.144	4140	67.159	4174	545.985	4208	7.048.674	4214	59.292.420	4220	-

In ________
Date ______________

Legal representative of the bank
____

KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2016

Belgrade, March 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

1. ESTABLISHMENT AND ACTIVITY OF THE BANKING GROUP

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

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

Republic of Serbia	41.74%
EBRD, London	24.43%

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

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

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

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

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

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

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

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

As of December 31, 2014 the Group was comprised of the Central Office in Belgrade at the address of no.14, Svetog Save St. head office of Komercijalna banka a.d., Budva in Budva at the address of PC Podkošljun bb, head office of Komercijalna banka a.d., Banja Luka in Banja Luka at the address of no. 6, Veselina Masleše St., head office of Investment Fund Management Company KomBank Invest a.d., Beograd in Belgrade, at the address of no. 19, Kralja Petra St.; 34 branch offices and 228 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina (2015: 38 branch offices and 228 sub-branches).

As of December 31, 2016 the Group had 3,152 employees, and as of December 31, 2015 3,148 employees.

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

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

The Bank's consolidated financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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

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

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

Group members during 2016, kept accounting records and prepared individual financial statements in accordance with local laws, other regulations, which are based on International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") and the regulations of the respective central banks and regulatory bodies. The individual financial statements have been audited by the external auditors, based on applicable local regulations.

For the purpose of preparing consolidated financial statements, the individual financial statements of subsidiary banks were adjusted for financial statement presentation based on accounting regulations of the Republic of Serbia.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka ad, Beograd as at 22 March 2017.

The Bank's 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 are stated in dinars and rounded in thousands.

Functional currency EUR in the financial statements of Komercijalna banka ad, Budva and BAM from the financial statements of Komercijalna Banka AD, Banja Luka, are denominated into the reporting currency, which is the functional currency of the Parent Bank - dinar (RSD) based on the officially published exchange rates in the Republic of Serbia.

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2016:

- **IAS 27 Separate Financial Statements (amended)**

  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management had not made use of this amendment.

- **IAS 1: Disclosure Initiative (Amendment)**

  The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has not made use of this amendment.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has not made use of this assessment.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Bank had no transactions in scope of this amendment.

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

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

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not have any plans that fall within the scope of this amendment.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements:

  - ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

  - ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

  - ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

  - ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

  - ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

  - ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

  - ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

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

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

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements

  - ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

  - ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

  - ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

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

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard (please see further under the same Note 2.3.)

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**

  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 16: Leases**

  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Management is in the process of assessing the effect that the requirements of this standard will have on the financial statements of the Bank.

- **Amendment in 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**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the amendments of this standard will have effect on 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 (continued)

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

  The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IAS 7: Disclosure Initiative (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the amendments of this standard will have effect on 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 (continued)

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

Key requirements of IFRS 9:

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018. In 2016 the Bank set up a multisector implementation team ('the Team') with members from its Risk, Finance and other business units to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the deputy Chief Executive Officer and competent for risk . Bank engage consultant to help to IFRS 9 be successfully implemented. As result of analyses of business model it is not determined that there are some facts that indicate that business model is not hold to collect payments from principal and interest. Currently, the Bank are finishing analysis in phases of classification and measurement and analysing elements of improving methodology of impairment and disclosure requirements.

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

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

Key requirements of IFRS 9: (continued)

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

During initial assessment Bank expect that:

- Loans and advances to customers and banks, that are classified as loans and receivables under IAS 39 are expected to in the most part be measured at amortised cost under IFRS 9 with eventual adjustments of contractual provisions.
- Financial instruments held for trading and those designated at FVPL are expected to be continue to be measured at FVPL
- The debt securities classified as available for sale under IAS 39 are expected to be measured as FVPL, amortised cost or FVOCI. As described above, the Bank is in the early stage of implementation of IFRS 9 and working with consultants on initial assessment of measurement of debt AFS securities.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank is analysing in which part of portfolio credit risk was increased significantly since initial recognition in order to include default rate for remaining life time for financial instrument for calculation of ECL. Establishing of this on regular bases is in process.

ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Bank under the contract, and
- The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

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

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

Key requirements of IFRS 9: **(continued)**

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The total loan portfolio would be group into Stage 1, Stage 2 and Stage 3:

- **Stage 1** – Performing loans when increase of credit risk is not detect from first recognition. The Bank calculates allowance based on 12-month expected credit losses.
- **Stage 2** – Underperforming loans when significantly increase of credit risk is detect from first recognition.
  The Bank calculates an allowance for the lifetime expected credit loss.
- **Stage 3** – Impaired loans.
  The Bank recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortised cost of the loan net of allowances.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Stage 1

The impairment of financial instruments that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis under IFRS 9 but it is expected to be on higher level as result of not using collaterals as deductible items from gross exposure.

Stage 2

All financial instruments with increase of credit risk from initial recognition would be classified in Stage 2 and loss allowance would calculated based on their lifetime ECLs, what is a new concept compared to IAS 39. The result of that would be increase of allowance relative of level of loan allowance calculate at the end of 2016.

The Bank considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. It is the Bank’s policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

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

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

Key requirements of IFRS 9: (continued)

Stage 3

As well as under IAS 39, financial instument will be included in Stage 3 when there is objective evidence that the loan is credit impaired and it is not expected to the population in stage 3 be changed. Impairment on an individual basis will continue to be calculated on the same basis.

It is expected that loans in stage 3 will be the same as those considered to be impaired in accordance with IAS 39.

When forbearance results in the derecognition of the original loan the new loan will be classified as originated credit-impaired.

Forward looking information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Bank will consider forward-looking information such as macroeconomic factors (e.g. unemployment, GDP growth, interest rates and house prices) and economic forecasts.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. The Bank will use data that is as current as possible and adjustments will be made for significant events occurring prior to the reporting date to. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank’s ongoing regulatory capital structure and further details will be provided once the assessment is complete. The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provisions for the effect of IFRS 9.

2.4. Going Concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation

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

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

The consolidated income statement and consolidated cash flow statement have been recalculated at the average exchange rate in the Republic of Serbia for the year 2016 of RSD 123.1015 for EUR 1 and RSD 62.9408 for BAM 1, while the other consolidated financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) were recalculated by applying the closing exchange rate effective as of the balance sheet date of RSD 123.4723 for EUR 1 and RSD 63.1304 for BAM 1.

(b) Foreign Exchange Denomination

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

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

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

		In RSD
	2016	2015
USD	117.1353	111.2468
EUR	123.4723	121.6261
CHF	114.8473	112.5230
BAM	63.1304	62.1864

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

The recognition of interest income on impaired loans is performed on a net basis, by reducing gross accrued interest for amount of impairment, ie for the amount that is likely not to be charged.

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Dividends

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

(h) Operating and Finance Lease Payments

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

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

(i) Tax Expenses

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

(i) Current Income Tax

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

(ii) Deferred Income Tax

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

Deferred income tax relating to items recognized directly credited or charged to equity is also charged in favor of capital.

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

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

(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”

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 are transferred to the borrower or received.. All other financial assets and liabilities are initially recognized on the date at which the relevant entity becomes a party to the contractual provisions of the instrument.(trade date)

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

(ii) Classification

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

The Group members classify financial liabilities as measured at amortized cost or held for trading – please refer to accounting 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 balance sheet when, and only when, a Group member has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vi) Fair Value Measurement (continued)

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vii) Identification and Measurement of Impairment (continued)

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).

(k) Cash and Cash Equivalents

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

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

(l) Trading Assets and Liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trading Assets and Liabilities (continued)

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

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

Derivatives

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

(m) Loans and Receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) *Investment Securities*

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

(i) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group members have the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available for sale.
Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent a Group member from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investment Securities (continued)

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

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

(o) Property and Equipment

(i) Recognition and Measurement

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

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

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

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

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

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

(ii) Subsequent Costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property and Equipment (continued)

(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.

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4 - 5	20%-25%
Furniture and other equipment	5 – 15	6.7%-50%
Leasehold improvements	1 – 23	4.25%-86.2%

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

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

(p) Intangible Assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 7 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases

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

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

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

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2016 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 33(b).

(x) Financial Guarantees

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

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

(y) Equity and Reserves

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Earnings per Share

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

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

(zz) Segment Reporting

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

In accordance with IFRS 8 "Operating Segments", the Group discloses information on 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 Bank uses the following:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Comparative data and correction of prior year error

As a result of adjustment of error, the Parent Bank has changed the openning balance and result for 2015, and made adjustments as follows:

Overview of completed correction in the Balance Sheet	*In RSD '000*		
	Before correction	**Correction**	**After correction**
Securities available for sale	127.173.383	1.583.025	128.756.408
TOTAL ASSETS	**127.173.383**	**1.583.025**	**128.756.408**
Deferred tax liabilities	23.592	201.713	225.305
Reserve-tax effects		(201.713)	(201.713)
Loss	(6.299.631)	238.273	(6.061.358)
Reserves-effect of transfer of premiums and discounts	27.542.265	(238.273)	27.303.992
Reserves-change in methodology		1.583.025	1.583.025
TOTAL EQUITY AND LIABILITIES	**21.242.634**	**1.583.025**	**22.825.659**

Overview of completed correction in the Income Statement	*In RSD '000*		
	Before correction	**Correction**	**After correction**
Interest income	18.856.309	238.273	19.094.582
Net loss	(6.299.631)	238.273	(6.061.358)

Based on the requirements of IAS 39 Financial instruments: recognition and measurement, IFRS 13 Fair value measurement and IAS 8-Accounting policies, changes in accounting estimates and errors, the Bank has amended the methodology of the fair value calculation of securities available for sale, predominantly government bonds issued by the Republic of Serbia.

Previous methodology for valuation of available for sale securities

For treasury bills of the Republic of Serbia issued in euros, the yield curve was constructed on the basis of executive rates from the last primary trading auctions while for the coupon bonds issued in euros yield curve was constructed based on Euribor interest rates with maturities of 1d to 12m and based on swap rates for EUR over one year with the addition of risk premium that is equal to the difference between the coupon rate and the risk free interest rate whose tenor corresponded to the duration of the bond.

In the case of treasury bills of the Republic of Serbia issued in dinars, yield curve was constructed on the basis of Belibor interest rates with maturities of 1d to 6m and executive rates from the last auctions from primary trading for maturity longer than 6 monhts while in case of coupon bonds of the Republic of Serbia issued in dinars the yield curve considered risk premium that is equal to:

- Fixed margin in case of bonds whose coupons depends on the reference rate of the National bank of Serbia increased by fixed spread;
- The difference between the coupon rate and the risk free interest rate in case of bonds with fixed coupons

The fair value of the securities was determined by discounting each cash flow with different discount factors of the corresponding tenors of the yield curve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Comparative data and correction of prior year error (continued)

Reasons for the change and main assumptions of the new methodology

The previous methodology for fair valuation of securities has not taken into account the circumstances on the local market of securities neither the requirements of the prevailing accounting standards:

- ❖ The Bank was using different discount rates for different cash flows generated on one security while one discount rate for discounting all future cash flows on security should be used according to the standard , being the principal and interest, since one discount rate (which corresponds to maturity of security) reflects all risks related to that security.
- ❖ For treasury bills the Bank was using discount rate of zero since prime market, according to the Bank, for these securities was not developed leading to the situation where fair value was equaled to their pair value.
- ❖ For coupons bonds in euros, risk fre interest rates were euribor/swap rates while rates inherent to domestic market (rates applicable for euro dominated bonds issued in domestic market from the government) should be used.

Main assumptions of the new methodology were (i) basing the valuation model on actual conditions on the domestic market and (ii) changed parameters for determining the uniform discount rate of future cash flows for individual securities.

Amended methodology for valuation of available for sale securities

In the amended methodology, for determining the fair value of the treasury bills and coupon bonds of the Republic of Serbia issued in euros, the yield curve is constructed from the last available (in relation to valuation date) executive rates of securities issued in euros from primary trading for tenors that greater of equal to one year and the last available executive rates from the secondary trading of securities whose residual maturity is less than one year.

In the case of securities issued by the Republic of Serbia in dinars, improved methodology for the calculation of fair value is based on the yield curve based on the Belibor interest rates for maturities of 1d to 6m and executive rates from the last available auctions of primary trading for tenors over 6 months.

The fair value of the securities was determined by discounting each individual cash flow with discount rate whose tenor corresponds to the remaining maturity of the security.

The effects of changes in the methodology for calculating the fair value has been accounted for both in the current year and retrospective adjustment has been applied and the effects on prior year has been disclosed in the Available for sale (Note 21) and equity-retained earnings and revaluation reserves (Note 35).

By the correction of previous reporting period the Parent bank has applied the requirmenets of the IAS 8 which refers to the retrospective restatements of data due to correction of prior year error and disclosure for each line item of the financial statements to which it applies.

4. RISK MANAGEMENT

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

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

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

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

Taking into account the changes of regulations of the National Bank of Serbia and the need for further improvement of risk management, during 2016 the Group carried out organizational and procedural changes to the risk management function (with special emphasis on the process of prevention and management of potentially risky loans and bad assets), as well as changes in internal procedures for governing risk management. By changing Strategy and risk management policies, the criteria for determining the basic principles of managing bad assets, as well as the highest acceptable level of non-performing loans for the Group have been defined.

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

4. RISK MANAGEMENT (continued)

Risk Management System

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

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

Risk Management Strategy sets out:

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

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

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

Policies for managing certain risk types define the following:

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

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.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

In 2016 members of the Group made the harmonization of internal documents (procedures and methodology) with modifications of regulations of the National Bank of Serbia, which relate to the management of credit risks, throughout comprehensiveness of definition of risky loans, termination of reprogramming and changes the definitions and methods of classification of restructured loans, as well as the implementation of regulations allowing relaxation of the calculated level of required reserves for potential losses, based on proactive management and reducing the level of problematic loans. In addition, the criteria for the materially significant loans that are individually assessed, the estimated value of collateral, appraisers, haircut, a change in the dynamics of the valuation of commercial real estate for NPL and annual analysis of movements in market value, as a requirement for the adequacy of the collateral, has been more closely defined.

In addition, the procedure of the prevention of corporate risky loans was adopted, in order to identify potentially risky (Watch List-a) clients, to mitigate credit risk of potentially risky clients and taking measures and actions in order to protect the interests of the Bank and to prevent adverse effects on the financial result and equity.

Competencies

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

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Parent Bank and the Group are exposed to. Also, the Executive Committee analyzes the risk management system, and at least once quarterly reports to the Board on the level of risk exposure and risk management and decide, with the prior approval of the Board of Directors, of any increase in the Group's exposure to an entity related to the Group and shall notify the Board of Directors.

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

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

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

4. RISK MANAGEMENT (continued)

Competencies (continued)

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

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

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

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

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.

4. RISK MANAGEMENT (continued)

Risk Types

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

4.1. Credit Risk

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

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

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

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

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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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 or transfer from the balance sheet to off balance sheet.

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.

Identification of problematic and restructured claims

The Group members monitor the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

Restructured non-problematic customers are classified into the category of potentially risky customers, while restructured problematic clients are classified into the category of clients with problematic claims.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of clients in the Standard category of clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementation of preventive actions against risky placements, i.e. mitigation and reduction of credit risk through the implementation of appropriate strategies and action plans. Potentially risky clients are monitored more frequently compared to standard clients and if further increase in credit risk is determined, clients are classified into the category of clients with problematic claims.

Problematic claims include all the claims that are late in settling obligations over 90 days, claims for which based on assessed financial position is estmated that the borrower will not be able to meet its obligations in full without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), claims for which the impairment loss is determined on an individual basis, as well as contingent liabilities arising from guarantees issued (if there is likely to be activated), and irrevocable commitments (if activating them would lead to new receivables for which the Group considers it would not be collected in full without the realization of collateral). Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred. The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (reduction of interest rates, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. In addition, receivables that are classified in the category of restructured debts are those for which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Group member has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Group (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

The Group members regularly monitor the measures taken to restructure the risky placements and control the timing of taking these measures. Monitoring of the measures taken, or the realization of the same, such as settlement of due liabilities, is carried out on a daily basis. The semi-annual monitoring of restructured business clients is performed regularly every 6 months or more often if necessary. Analysis of financial statements, analysis of indebtedness, verification of adequacy of collaterals and monitoring overall operations are the key points of above mentioned monitoring.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the group of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not grater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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 with default status (risky placement, risk category 4 according to internal rating system which has default status and risk category 5) 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.

The threshold of materiality, the Group members determine based on the analysis of value structure of its portfolio by customer and product.

Allowance for impairment on an individual basis is calculated if there is objective evidence of impairment that is a result of one or more events that occurred after the initial recognition of the financial asset, and if there is a measurable reduction in future cash flows.

The following is considered objective evidence indicating the need for loan impairment:

- Financial condition or creditworthiness of the debtor indicates significant problems in his business and the Group members have estimated that he will not be able to fulfill its obligations in full,
- Failure to meet contractual obligations, delinquency in payment of interest/principal and other contractual provisions (evidence of failure or delay in payment),
- Information about the blockade of the debtor's account,
- Concessions provided by the Group members to the debtor due to economic or legal reasons (evidence of an approved landfill charge, restructured receivables and other approved concessions due to financial difficulties in the business of the debtor),
- Significant difficulties in the business of the debtor (evidence of bankruptcy, liquidation, financial reorganization of the debtor, reduced rating of the debtor, a significant fall in revenue, a significant reduction in capital, damage due to force majeure that the debtor has suffered, loss of license, change of management, etc.),
- Internal and external factors that may affect the collectability of receivables (evidence of adverse changes in business conditions in some industries which are reflected on the financial ability of the debtor, evidence of macroeconomic trends: the decline in demand, falling prices, budget deficit, operations in times of crisis or recession, etc.),
- Local economic factors that cause collection problems.

Evidence can be documented by the analysis in Watch process, by information about the increased level of risk borrowers, reports of the meetings that were held with the debtor, reports on conducted monitoring of collateral clients, reports of forced collection and days of blockade, reports on loans in default and other information that the Group has.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

When there is objective evidence, the amount of the impairment is estimated by discounting the future cash flows from business. The calculation of the expected future cash flows also includes resources from the activation of collateral (secondary sources), if it is assessed that there is no objective evidence that the loan can be settled from the expected future cash flows from business and will realistically be settled from collaterals.

Group-Level Assessment

Impairment is assessed on a group basis for loans that are not individually significant and for individually significant loans that do not have the status of default, for loans for which the calculation on an individual basis has not determined the amount of impairment, as well as on basis of fees and other receivables that have elements for reducing the present value.

Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (credit groups by types of clients and loans), based on the internal rating system, on a monthly basis.

Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product.

Appreciating the specifics in doing business with clients, different migration matrixes are established for legal entities, for individuals by type of product, banks and entrepreneurs.

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. The Group members also perform determination of probable loss for unused commitments, for which it have not contracted unconditionally and without notice, the possibility of cancellation of contractual obligations. When calculating provisions for unused commitments, the Group members use the conversion factor (CCF), by which the book value of unused commitments is adjusted.

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.

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that Group members use, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of credit risk.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

As a standard collaterals Group members accept contractual authorizations and bills from clients, while as an additional instrument, depending on the assessment of credit risk, and the types of loans, following instruments can be agreed:

- For commercial loans - pledge over movable and immovable assets (mortgages), deposits, bank, corporate and government guarantees, sureties, pledge over securities, stocks and receivables;
- For retail loans - mortgages on immovable properties, deposits, sureties, insurance from National corporation for insurance of housing loans and more

When assessing property or pledges over movable property, the Group members provide expert and independent assessment of the value of real estate by authorized appraiser, to reduce the potential risk of unrealistic valuation to a minimum. The premises, supplies, equipment and other movable property which is the subject of the pledge must be insured by an insurance company acceptable to the Group members, and the insurance policies must be endorsed in favor of the Group members.

In order to protect against changes in the market value of the collateral (mortgage, pledge, securities, etc.), the estimated value of collateral is adjusted for a defined percentage (haircut) depending on the type of collateral and the location, which is regularly reviewed and revised. In this way, the Group members protect itself from potential losses arising from the inability to collect receivables from collateral.

The correction factor (haircut) is the difference between the estimated value of collateral and the proceeds that can be realized by selling the collateral in the process of collection. Haircut reduces estimated market value of any collateral to the expected value that will be charged for its implementation in the future, and taking into account the volatility of the market value and the possibility of realizing cash outflows based on activation fee and sales (court costs, tax costs charged to seller, consultants and advertising costs and other costs), the expected decline in market value since the assessment time until the time of the planned realization, and the inherent uncertainty in determining the value.

The Group members pay attention to regular assessment/valuation of collateral. For performing loans (PE), mortgages on residential and commercial property are assessed at least once every three years by a licensed appraiser. For non-performing loans (NPE), a mortgage on a residential property is assessed at least once every three years, mortgages on office buildings (offices, shops, warehouses, building land with and without planning permission, agricultural land, etc.) at least once every 18 months, a mortgage on the industrial facilities are evaluated at least once a year (12 months), by a certified appraiser. Securities are assessed on a monthly basis, for all loans.

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from portfolio with movements in the market value in the Group members country market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the business real estates, the Group members conduct verification of value at least once a year, and for housing and other real estate at least once every three years.

The value of the collateral and the tendency of movement of it's value, the Group members monitor and update to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2016 and 2015 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

In thousand RSD

	31.12.2016.		31.12.2015.	
	Gross	Net	Gross	Net
I. Assets	**472,812,097**	**428,827,608**	**464,618,477**	**416,461,558**
Cash and cash funds held with the central bank	61,919,102	61,919,102	68,895,218	68,895,218
Loans and receivables due from banks and other financial institutions	43,528,675	43,216,681	18,248,795	17,848,897
Loans and receivables due from customers	198,491,610	166,401,008	217,556,125	179,422,656
Financial assets	140,590,950	140,425,071	132,976,276	132,878,236
Other assets	10,957,501	7,255,156	10,442,020	7,661,929
Non-monetary assets	17,324,259	9,610,590	16,500,043	9,754,622
II. Off-balance sheet items	**33,930,412**	**33,876,991**	**30,916,843**	**30,341,437**
Payment guarantees	4,336,212	4,277,043	5,337,033	5,164,181
Performance bonds	6,950,946	6,920,093	6,756,947	6,640,059
Irrevocable commitments	22,050,789	22,371,693	18,250,616	18,241,064
Other items	592,465	308,162	572,247	296,133
Total (I+II)	**506,742,509**	**462,704,599**	**495,535,320**	**446,802,995**

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

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

In thousand RSD

31.12.2016.	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Groupl impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	40,852,705	1,671,866	42,524,571	250,528	970,154	1,220,682	41,303,889
Cash Loans	-	-	21,104,656	770,732	21,875,388	522,362	756,789	1,279,151	20,596,236
Agricultural Loans	-	-	6,261,241	415,510	6,676,750	85,184	362,217	447,401	6,229,349
Other Loans	-	-	5,480,042	652,883	6,132,926	165,755	652,891	818,646	5,314,280
Micro Business	-	-	8,257,892	1,986,633	10,244,525	283,577	1,314,069	1,597,646	8,646,879
Total Retail	**-**	**-**	**81,956,536**	**5,497,623**	**87,454,160**	**1,307,407**	**4,056,120**	**5,363,527**	**82,090,633**
Large corporate clients	-	-	34,812,545	24,078,785	58,891,330	386,634	19,545,036	19,931,670	38,959,660
Middle corporate clients	-	-	18,523,741	3,237,128	21,760,869	244,029	2,292,400	2,536,429	19,224,440
Small corporate clients	-	-	8,048,981	2,801,647	10,850,628	156,257	1,838,978	1,995,235	8,855,394
State owned clients	1,893,832	-	7,912,023	1,674,358	11,480,213	64,686	562,870	627,556	10,852,657
Other	-	-	6,428,827	1,625,583	8,054,410	10,603	1,625,583	1,636,185	6,418,225
Total Corporate	**1,893,832**	**-**	**75,726,117**	**33,417,501**	**111,037,450**	**862,208**	**25,864,867**	**26,727,075**	**84,310,375**
Total	**1,893,832**	**-**	**157,682,653**	**38,915,125**	**198,491,610**	**2,169,615**	**29,920,987**	**32,090,602**	**166,401,008**
Due from banks	**40,418,883**	**-**	**2,799,917**	**309,874**	**43,528,675**	**2,120**	**309,874**	**311,994**	**43,216,681**

Note: According to internal segmentation, retail sector incorporates private individuals, agricultural and micro business clients (entrepreneurs and micro clients)

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

In thousand RSD

31.12.2015	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Groupl impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	39,982,376	1,492,883	41,475,259	383,054	639,449	1,022,503	40,452,756
Cash Loans	-	-	18,044,076	750,816	18,794,892	550,245	707,834	1,258,078	17,536,813
Agricultural Loans	-	-	5,434,656	411,036	5,845,692	77,509	346,831	424,340	5,421,352
Other Loans	-	-	6,124,513	637,613	6,762,125	201,447	631,176	832,623	5,929,502
Micro Business	-	-	6,804,521	2,734,483	9,539,004	440,330	1,297,550	1,737,880	7,801,124
Total Retail	**-**	**-**	**76,390,141**	**6,026,830**	**82,416,971**	**1,652,584**	**3,622,840**	**5,275,424**	**77,141,547**
Large corporate clients	-	-	30,561,249	34,886,378	65,447,627	255,032	19,475,413	19,730,445	45,717,182
Middle corporate clients	-	-	20,746,143	6,377,465	27,123,609	162,316	3,988,567	4,150,883	22,972,726
Small corporate clients	-	-	7,395,037	6,308,272	13,703,309	126,228	4,094,816	4,221,044	9,482,265
State owned clients	3,822,508	136,129	15,781,903	3,229,726	22,970,266	17,841	2,796,528	2,814,369	20,155,897
Other	-	-	3,784,433	2,109,911	5,894,343	932	1,940,372	1,941,304	3,953,039
Total Corporate	**3,822,508**	**136,129**	**78,268,765**	**52,911,752**	**135,139,154**	**562,350**	**32,295,695**	**32,858,045**	**102,281,109**
Total	**3,822,508**	**136,129**	**154,658,906**	**58,938,582**	**217,556,125**	**2,214,934**	**35,918,535**	**38,133,469**	**179,422,656**
Due from banks	**15,040,112**	**1,223,716**	**1,585,208**	**399,760**	**18,248,795**	**138**	**399,760**	**399,898**	**17,848,897**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment in Balance sheet

In thousand RSD

	31.12.2015.	Increase in impairment	Decrease in impairment	Other changes*	31.12.2016.
Retail	5,275,424	2,212,640	(1,932,238)	(192,301)	5,363,527
Corporate	32,858,045	19,777,362	(8,374,365)	(17,533,967)	26,727,075
Total	**38,133,469**	**21,990,002**	**(10,306,603)**	**(17,726,268)**	**32,090,602**
Due from banks	**399,898**	**5**	**-**	**(87,909)**	**311,994**

**Other changes relate to transfer of completely impaired receivables from balance sheet to off-balance sheet, foreign exchange diffrencies and other changes.*

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 does 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. Loans and receivables that are 100% impaired are in the individually impaired loans and receivables.

The significant increase in allowance for credit losses in 2016 is mostly a result of the Parent bank's deteriorating quality of the loan portfolio, the new problematic loans, lower values of mortgage and beggining of bankruptcy proceedings.

Receivables Matured but not Impaired

Loans and receivables matured but not impaired represent those Parent bank's loans and receivables where there is default in settling liabilities for contractually agreed interest or principal outstanding (the report shows the entire receivable amount as matured for any matured portion of principal or interest). The Parent Bank believes that it is not appropriate to make impairment allowance for such receivables given that there is certainty of collection (receivables from Republic of Serbia). In 2016., the Group members did not have matured and not impaired placements.

Receivables not Matured and not Impaired

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

The Bank followed the Guideline o disclosure of information on the asset of the assets of National Bank of Serbia in preparation of the credit risk tables. The form and content of the tables are derived from the related Guideline.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans not impaired, by days past due

In thousand RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	-	-	-	-	-	-
Cash Loans	-	-	-	-	-	-
Agricultural Loans	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-
Micro Businesses	-	-	-	-	-	-
Retail clients	**-**	**-**	**-**	**-**	**-**	**-**
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	-	-	-	-	-	-
Small corporate clients	-	-	-	-	-	-
State owned clients	1,893,832	-	-	-	-	1,893,832
Other	-	-	-	-	-	-
Corporate clients	**1,893,832**	**-**	**-**	**-**	**-**	**1,893,832**
By receivables categories						
Non-problematic receivables	**1,654,188**	**-**	**-**	**-**	**-**	**1,654,188**
Out of which: restructured	-	-	-	-	-	-
Problematic receivables	**239,644**	**-**	**-**	**-**	**-**	**239,644**
Out of which: restructured	-	-	-	-	-	-
Total	**1,893,832**	**-**	**-**	**-**	**-**	**1,893,832**
Due from banks	**40,418,883**	**-**	**-**	**-**	**-**	**40,418,883**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans not impaired, by days past due

In thousand RSD

31.12.2015	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	-	-	-	-	-	-
Cash Loans	-	-	-	-	-	-
Agricultural Loans	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-
Micro Businesses	-	-	-	-	-	-
Retail clients	**-**	**-**	**-**	**-**	**-**	**-**
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	-	-	-	-	-	-
Small corporate clients	-	-	-	-	-	-
State owned clients	3,822,508	-	-	-	136,129	3,958,637
Other	-	-	-	-	-	-
Corporate clients	**3,822,508**	**-**	**-**	**-**	**136,129**	**3,958,637**
By receivables categories						
Non-problematic receivables	**3,460,496**	**-**	**-**	**-**	**-**	**3,460,496**
Out of which: restructured	-	-	-	-	-	-
Problematic receivables	**362,012**	**-**	**-**	**-**	**136,129**	**498,141**
Out of which: restructured	-	-	-	-	-	-
Total	**3,822,508**	**-**	**-**	**-**	**136,129**	**3,958,637**
Due from banks	**15,047,560**	**1,216,268**	**-**	**-**	**-**	**16,263,828**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans impaired, by days past due

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	39,345,742	671,483	188,593	338,781	1,979,972	42,524,571
Cash Loans	19,165,603	1,370,607	159,710	71,028	1,108,440	21,875,388
Agricultural Loans	5,928,842	209,916	55,710	19,156	463,126	6,676,750
Other Loans	5,065,766	291,352	29,790	14,413	731,605	6,132,926
Micro Businesses	6,969,894	981,118	81,263	87,930	2,124,319	10,244,525
Retail clients	**76,475,848**	**3,524,475**	**515,066**	**531,309**	**6,407,463**	**87,454,160**
Large corporate clients	37,043,438	3,757,463	49,512	-	18,040,917	58,891,330
Middle corporate clients	17,277,227	1,548,658	26,237	27,052	2,881,694	21,760,869
Small corporate clients	7,545,556	895,493	21,321	73,734	2,314,525	10,850,628
State owned clients	8,754,250	234,309	-	-	597,822	9,586,381
Other	7,786,646	177,701	1,262	-	88,801	8,054,410
Corporate clients	**78,407,116**	**6,613,625**	**98,332**	**100,786**	**23,923,760**	**109,143,618**
By receivables categories						
Non-problematic receivables	**148,743,980**	**6,454,133**	**501,900**	**508,825**	**24,343**	**156,233,180**
Out of which: restructured	2,684,851	599,992	34,572	41,979	-	3,361,395
Problematic receivables	**6,138,984**	**3,683,967**	**111,498**	**123,270**	**30,306,879**	**40,364,598**
Out of which: restructured	2,848,138	3,579,359	60,187	7,057	20,922,319	27,417,059
Total	**154,882,964**	**10,138,100**	**613,398**	**632,094**	**30,331,222**	**196,597,778**
Due from banks	**3,109,791**	**-**	**-**	**-**	**-**	**3,109,791**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans impaired, by days past due

In thousand RSD

31.12.2015	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	38,148,449	640,284	322,945	358,596	2,004,985	41,475,259
Cash Loans	16,482,557	1,048,007	129,586	88,145	1,046,596	18,794,892
Agricultural Loans	5,034,177	254,074	67,053	30,221	461,556	5,847,080
Other Loans	5,673,962	297,890	36,301	24,167	728,417	6,760,737
Micro Businesses	5,730,473	753,631	152,449	194,854	2,707,598	9,539,004
Retail clients	**71,069,618**	**2,993,886**	**708,333**	**695,983**	**6,949,151**	**82,416,971**
Large corporate clients	36,668,735	4,374,258	158,134	-	24,246,500	65,447,627
Middle corporate clients	19,231,930	866,576	166,006	656,781	6,202,315	27,123,609
Small corporate clients	6,886,109	598,804	74,241	4,304	6,139,852	13,703,309
State owned clients	15,546,999	273,911	7,612	-	3,183,107	19,011,630
Other	5,209,371	3,543	194,324	2,369	484,737	5,894,343
Corporate clients	**83,543,144**	**6,117,092**	**600,317**	**663,453**	**40,256,511**	**131,180,517**
By receivables categories						
Non-problematic receivables	**152,655,557**	**8,949,775**	**1,258,570**	**1,288,699**	**24,577**	**164,177,177**
Out of which: restructured	4,711,630	4,296,413	312,258	729,375	-	10,049,676
Problematic receivables	**1,957,205**	**161,203**	**50,081**	**70,737**	**47,181,085**	**49,420,311**
Out of which: restructured	292,652	98,189	435,527	3,555	18,285,886	19,115,810
Total	**154,612,761**	**9,110,978**	**1,308,651**	**1,359,436**	**47,205,662**	**213,597,488**
Due from banks	**1,879,504**	**-**	**-**	**-**	**105,464**	**1,984,968**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment

31.12.2016	Gross 31.12.2015	Impaired during the year	Cease being impaired during the year	Foreign exchange rate effect	Other Changes	Gross 31.12.2016	Net 31.12.2016
Housing Loans	41,475,259	4,013,345	(942,907)	655,673	(2,676,799)	42,524,571	41,303,889
Cash Loans	18,794,892	13,117,282	(7,669,009)	30,390	(2,398,168)	21,875,388	20,596,236
Agricultural Loans	5,845,692	3,656,512	(1,855,403)	67,407	(1,037,458)	6,676,750	6,229,349
Other Loans	6,762,124	1,041,355	(1,515,918)	8,759	(163,395)	6,132,926	5,314,280
Micro Businesses	9,539,004	6,042,026	(3,952,307)	113,839	(1,498,038)	10,244,525	8,646,879
Retail	**82,416,971**	**27,870,521**	**(15,935,543)**	**876,070**	**(7,773,858)**	**87,454,160**	**82,090,633**
Large corporate clients	65,447,627	4,968,835	(12,385,315)	783,106	77,077	58,891,330	38,959,660
Middle corporate clients	27,123,609	3,383,141	(6,549,451)	333,484	(2,529,913)	21,760,869	19,224,440
Small corporate clients	13,703,309	2,227,852	(4,994,970)	158,256	(243,818)	10,850,628	8,855,394
State owned clients	19,011,630	1,112,715	(6,871,069)	258,199	(3,925,094)	9,586,381	8,958,825
Other	5,894,343	3,550	(648,588)	41,570	2,763,533	8,054,410	6,418,225
Corporate Clients	**131,180,517**	**11,696,093**	**(31,449,394)**	**1,574,614**	**(3,858,214)**	**109,143,618**	**82,416,543**
Total	**213,597,488**	**39,566,614**	**(47,384,937)**	**2,450,684**	**(11,632,072)**	**196,597,778**	**164,507,177**
Due from banks	**1,984,968**	**1,765,729**	**(656,482)**	**-**	**15,578**	**3,109,791**	**2,797,798**

*Other changes relate to orderly settlement of debt during 2016. which caused decrease in credit exposure.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables

In thousand RSD

31.12.2016	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**87,454,160**	**5,363,527**	**6,926,920**	**1,194,271**	**4,831,972**	**7,92%**	**4,073,457**
Housing Loans	42,524,571	1,220,682	2,317,300	450,074	1,131,862	5,45%	1,946,947
Cash Loans	21,875,388	1,279,151	1,201,269	62,924	1,107,338	5,49%	181,760
Agricultural Loans	6,676,750	447,401	482,267	39,016	397,270	7,22%	278,995
Other	6,132,926	818,646	745,751	489	732,288	12,16%	22,430
Micro Businesses	10,244,525	1,597,646	2,180,334	641,768	1,463,213	21,28%	1,643,325
Corporate	**111,037,450**	**26,727,075**	**33,677,322**	**26,222,788**	**25,892,294**	**30,33%**	**26,060,097**
Agriculture	6,963,406	296,167	355,855	51,981	233,910	5,11%	352,224
Manufacturing Industry	36,548,279	10,372,448	14,377,412	12,820,759	10,109,059	39,34%	12,904,699
Electric Energy	311,333	49,207	-	-	-	0,00%	-
Construction	3,865,325	1,644,715	1,660,952	1,308,284	1,513,279	42,97%	1,567,268
Wholesale and Retail	30,609,582	4,712,214	5,726,507	4,289,886	4,525,657	18,71%	4,969,495
Service Activities	12,166,402	2,577,391	2,946,538	2,876,445	2,457,942	24,22%	2,314,905
Real Estate Activities	1,837,179	704,562	1,421,259	954,401	696,020	77,36%	1,332,954
Other	18,735,945	6,370,370	7,188,799	3,921,032	6,356,425	38,37%	2,618,553
Total	**198,491,610**	**32,090,602**	**40,604,242**	**27,417,059**	**30,724,266**	**20,46%**	**30,133,554**
Due from banks	**43,528,675**	**311,994**	**309,874**	**-**	**309,874**	**0,71%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables (continued)

In thousand RSD

31.12.2015	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**82,416,971**	**5,275,424**	**7,299,635**	**856,681**	**4,652,102**	**8,86%**	**4,313,074**
Housing Loans	41,475,259	1,022,503	2,178,618	187,676	930,590	5,25%	1,882,106
Cash Loans	18,794,892	1,258,078	1,116,755	33,095	1,049,214	5,94%	104,256
Agricultural Loans	5,847,080	424,340	481,357	18,943	376,290	8,23%	257,017
Other	6,760,737	832,623	747,284	1,041	727,540	11,05%	28,356
Micro Businesses	9,539,004	1,737,880	2,775,621	615,926	1,568,469	29,10%	2,041,339
Corporate	**135,139,154**	**32,858,045**	**42,618,817**	**18,259,129**	**31,266,808**	**31,54%**	**32,514,042**
Agriculture	5,309,323	152,870	422,260	9,881	130,630	7,95%	341,330
Manufacturing Industry	44,346,362	7,963,410	8,031,855	6,611,934	6,496,990	18,11%	6,850,807
Electric Energy	4,070,221	5,827	174,972	-	5,231	4,30%	174,960
Construction	3,843,578	745,241	1,506,282	317,983	683,094	39,19%	1,552,888
Wholesale and Retail	31,673,415	4,980,499	6,820,116	1,294,802	4,621,075	21,53%	5,533,322
Service Activities	12,115,095	1,336,866	3,189,286	2,847,094	1,316,990	26,32%	2,692,214
Real Estate Activities	2,116,655	571,531	1,134,079	734,457	565,129	53,58%	1,076,806
Other	31,664,505	17,101,801	21,339,968	6,442,978	17,447,668	67,39%	14,291,716
Total	**217,556,125**	**38,133,470**	**49,918,452**	**19,115,810**	**35,918,910**	**22,95%**	**36,827,116**
Due from banks	**18,248,795**	**399,898**	**399,760**	**-**	**399,760**	**2,19%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables (continued)

Changes in non-performing receivables

In thousand RSD

	Gross 31.12.2015	New non-performing receivables	Decrease in non-performing receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2016	Net 31.12.2016
Housing Loans	2,178,618	598,649	(389,160)	26,324	(97,265)	2,317,166	1,185,304
Cash Loans	1,116,755	218,300	(102,884)	3,315	(34,318)	1,201,169	93,831
Agricultural Loans	481,357	78,138	(53,770)	2,756	(26,235)	482,245	84,975
Other Loans	747,284	90,639	(80,513)	1,137	(12,815)	745,733	13,445
Micro Businesses	2,775,621	240,468	(835,816)	27,971	(29,191)	2,179,052	715,838
Retail	**7,299,635**	**1,226,194**	**(1,462,144)**	**61,504**	**(199,824)**	**6,925,365**	**2,093,393**
Large corporate clients	24,615,973	7,439,981	(8,389,997)	224,863	187,974	24,078,794	4,533,758
Middle corporate clients	6,185,390	1,041,537	(3,760,296)	55,365	(293,801)	3,228,194	930,506
Small corporate clients	6,149,789	597,526	(3,758,903)	53,851	(210,002)	2,832,261	971,157
State owned clients	3,681,053	1,076,536	(2,752,808)	42,094	(132,873)	1,914,002	1,351,133
Other	1,986,612	-	(380,997)	22,129	(2,119)	1,625,625	29
Corporate Clients	**42,618,817**	**10,155,581**	**(19,043,001)**	**398,301**	**(450,822)**	**33,678,877**	**7,786,583**
Total	**49,918,452**	**11,381,775**	**(20,505,145)**	**459,805**	**(650,646)**	**40,604,242**	**9,879,975**
Due from banks	**399,760**	**-**	**(105,463)**	**-**	**15,578**	**309,874**	**-**

**Other changes relate to partially increase/decrease of the amount of receivables from one loan during the year*

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.3. Non problematic receivables

In thousand RSD

	31.12.2016					31.12.2015				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals
Housing Loans	39,585,087	616,664	5,520	40,207,271	39,041,592	38,870,094	415,462	11,085	39,296,641	37,715,100
Cash Loans	20,592,587	79,205	2,326	20,674,119	13,898,294	17,570,597	106,107	1,433	17,678,137	9,215,561
Agricultural Loans	6,166,607	25,291	2,586	6,194,483	5,624,628	5,334,830	30,893	-	5,365,723	4,824,721
Other Loans	5,341,209	41,914	4,052	5,387,175	198,039	5,967,594	44,345	1,514	6,013,453	299,406
Micro Businesses	7,341,879	418,421	303,890	8,064,191	8,825,434	5,927,417	628,955	207,012	6,763,383	7,310,086
Retail	**79,027,369**	**1,181,496**	**318,375**	**80,527,240**	**67,587,985**	**73,670,532**	**1,225,760**	**221,044**	**75,117,336**	**59,364,874**
Large corporate clients	30,707,102	4,105,443	-	34,812,545	41,215,722	29,618,878	11,213,060	-	40,831,938	48,131,772
Middle corporate clients	18,149,288	359,573	4	18,508,866	23,518,854	18,857,694	1,989,707	91,522	20,938,923	25,676,809
Small corporate clients	7,394,235	595,028	30,119	8,019,382	10,093,591	6,811,288	200,729	540,351	7,552,368	9,325,463
State owned clients	7,757,111	500,825	1,308,275	9,566,211	6,226,630	6,689,797	10,506,909	2,092,951	19,289,656	12,041,513
Other	940,332	5,473,897	38,896	6,453,124	5,119,893	619,519	3,077,797	210,137	3,907,452	2,654,342
Corporate Clients	**64,948,069**	**11,034,765**	**1,377,294**	**77,360,128**	**86,174,689**	**62,597,175**	**26,988,201**	**2,934,960**	**92,520,337**	**97,829,898**
Total	**143,975,438**	**12,216,261**	**1,695,669**	**157,887,368**	**153,762,675**	**136,267,707**	**28,213,961**	**3,156,004**	**167,637,673**	**157,194,772**
Due from banks	**43,218,801**	**-**	**-**	**43,218,801**	**223,425**	**17,849,035**	**-**	**-**	**17,849,035**	**53,267**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables

In thousand RSD

31.12.2016

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**87,454,160**	**5,363,527**	**1,910,287**	**1,194,271**	**575,309**	**2,18%**	**1,694,101**
Housing Loans	42,524,571	1,220,682	948,830	450,074	193,179	2,23%	848,942
Cash Loans	21,875,388	1,279,151	134,317	62,924	44,877	0,61%	91,182
Agricultural Loans	6,676,750	447,401	39,965	39,016	22,814	0,60%	36,855
Other	6,132,926	818,646	1,089	489	489	0,02%	130
Micro Businesses	10,244,525	1,597,646	786,086	641,768	313,950	7,67%	716,991
Corporate Clients	**111,037,450**	**26,727,075**	**28,868,167**	**26,222,788**	**21,018,784**	**26,00%**	**24,163,361**
Agriculture	6,963,406	296,167	233,450	51,981	10,585	3,35%	191,475
Manufacturing Industry	36,548,279	10,372,448	13,022,853	12,820,759	9,636,129	35,63%	11,671,209
Electric Energy	311,333	49,207	-	-	-	0,00%	-
Construction	3,865,325	1,644,715	1,308,284	1,308,284	1,224,520	33,85%	1,265,365
Wholesale and Retail	30,609,582	4,712,214	6,064,460	4,289,886	3,451,874	19,81%	5,963,761
Service Activities	12,166,402	2,577,391	2,981,533	2,876,445	2,427,775	24,51%	2,341,313
Real Estate Activities	1,837,179	704,562	967,176	954,401	644,009	52,64%	902,578
Other	18,735,945	6,370,370	4,290,412	3,921,032	3,623,891	22,90%	1,827,660
Total	**198,491,610**	**32,090,602**	**30,778,454**	**27,417,059**	**21,594,093**	**15,51%**	**25,857,462**
Due from banks	**43,528,675**	**311,994**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables

In thousand RSD

31.12.2015

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**82,416,971**	**5,275,424**	**1,359,141**	**856,681**	**317,481**	**1,65%**	**1,224,519**
Housing Loans	41,475,259	1,022,503	468,297	187,676	92,884	1,13%	417,637
Cash Loans	18,794,892	1,258,078	66,788	33,095	29,464	0,36%	38,850
Agricultural Loans	5,847,080	424,340	30,010	18,943	3,562	0,51%	29,467
Other	6,760,737	832,623	9,592	1,041	1,336	0,14%	7,853
Micro Businesses	9,539,004	1,737,880	784,453	615,926	190,234	8,22%	730,713
Corporate Clients	**135,139,154**	**32,858,045**	**27,806,345**	**18,259,129**	**13,450,038**	**20,58%**	**24,498,249**
Agriculture	5,309,323	152,870	9,881	9,881	9,881	0,19%	9,881
Manufacturing Industry	44,346,362	7,963,410	13,844,835	6,611,934	6,688,432	31,22%	12,754,172
Electric Energy	4,070,221	5,827	-	-	-	0,00%	-
Construction	3,843,578	745,241	317,983	317,983	216,645	8,27%	302,427
Wholesale and Retail	31,673,415	4,980,499	3,153,414	1,294,802	336,246	9,96%	3,037,330
Service Activities	12,115,095	1,336,866	2,863,013	2,847,094	1,053,980	23,63%	2,617,030
Real Estate Activities	2,116,655	571,531	734,457	734,457	366,723	34,70%	734,457
Other	31,664,505	17,101,801	6,882,762	6,442,978	4,778,131	21,74%	5,042,952
Total	**217,556,125**	**38,133,470**	**29,165,486**	**19,115,810**	**13,767,518**	**13,41%**	**25,722,768**
Due from banks	**18,248,795**	**399,898**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousand RSD

	Gross 31.12.2015	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2016	Net 31.12.2016
Housing Loans	468,297	548,034	(57,048)	8,794	(19,247)	948,830	755,651
Cash Loans	66,789	77,315	(5,561)	726	(4,952)	134,317	89,440
Agricultural Loans	30,010	18,090	(5,320)	342	(3,156)	39,965	17,151
Other Loans	9,592	-	(1,625)	144	(7,022)	1,089	600
Micro Businesses	784,453	165,000	(122,913)	11,380	(51,835)	786,086	472,136
Retail	**1,359,142**	**808,439**	**(192,467)**	**21,385**	**(86,212)**	**1,910,287**	**1,334,978**
Large corporate clients	22,101,853	4,976,343	(2,256,377)	271,206	38,383	25,131,407	6,231,180
Middle corporate clients	1,571,913	808,668	(644,456)	19,803	(26,819)	1,729,109	622,940
Small corporate clients	1,049,518	475,229	(196,582)	12,708	(185,002)	1,155,871	533,389
State owned clients	2,643,276	276,218	(2,452,568)	36,217	(20,742)	482,401	92,498
Other	439,784	-	(77,080)	6,676	-	369,380	369,376
Corporate Clients	**27,806,344**	**6,536,458**	**(5,627,064)**	**346,610**	**(194,180)**	**28,868,167**	**7,849,383**
Total	**29,165,486**	**7,344,897**	**(5,819,531)**	**367,995**	**(280,392)**	**30,778,454**	**9,184,361**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

**Other changes relate to partially increase/decrease of the amount of restructured receivables from one loan during the year*

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

Measures implemented by the Bank during the restructuring of loans

The Group members carry out various restructuring measures, depending on the client's needs, respecting the interests of the group with a complete understanding of the business, financial and collateral position of client.

The measures most often taken by the Group members during the restructuring of loans are:

- Extension of the maturity date, which is usually accompanied also by adjusting the interest rate that is adjusted to the financial situation of clients,
- The introduction of a grace period or moratorium on settlement of liabilities within a specified period,
- Capitalization of maturity, if there are outstanding liabilities due to date, those are in the process of restructuring returned to claims not due, i.e. new initial balance of claim is formed.
- Refinancing of receivables - in justified cases it is possible to carry out refinancing of receivables from other creditors in order to improve the Group's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the group members have not implemented a partial write-offs during the restructuring, but in the coming period, the Group members will carefully consider the justification of such measure in the restructuring process if it is reasonable, in order to reduce the debtor's obligations to the real level that can be repaid from cash flow, which will certainly be analysed comparatively, and collateral position of the group with the screening of collection options, to enable the Bank to collect its claim to the maximum possible amount.
- converting debt into equity - also not done in the past, but in the coming period will be done by an individual assessment of the justification of implementing this measure, if it is the only possibility of conducting the restructuring of the Bank, i.e. the collection of receivables.

Those measures can be implemented individually or by implementing more measures depending on each individual restructuring process.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.5. Concentration Risk

The Bank 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.

Loans and receivables from banks and other financial institutions per sector and geograhic concentration of exposure

In thousand RSD

31.12.2016	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**74,137,624**	**3,270,768**	**3,118,847**	**-**	**-**	**5,167,534**	**884,462**	**874,924**	**-**	**-**
Housing Loans	37,271,767	1,543,567	1,391,937	-	-	1,992,031	278,496	46,773	-	-
Cash Loans	18,968,032	1,017,024	689,063	-	-	924,303	123,650	153,316	-	-
Agricultural Loans	6,081,950	9,903	102,631	-	-	467,403	-	14,863	-	-
Other	5,239,787	52,564	94,824	-	-	662,682	19,572	63,497	-	-
Micro Businesses	6,576,089	647,709	840,393	-	-	1,121,115	462,744	596,475	-	-
Corporate Clients	**64,243,239**	**6,881,172**	**6,235,717**	**-**	**-**	**32,412,891**	**617,583**	**579,363**	**-**	**67,485**
Agriculture	6,416,768	181,481	9,303	-	-	345,824	-	10,031	-	-
Manufacturing Industry	20,620,278	153,502	1,397,086	-	-	14,174,435	117,266	85,711	-	-
Electric Energy	83,227	5,593	222,513	-	-	-	-	-	-	-
Construction	1,786,210	278,123	140,040	-	-	1,351,493	309,459	-	-	-
Wholesale and Retail	23,274,624	642,396	966,054	-	-	5,149,413	155,333	421,760	-	-
Service Activities	8,098,887	816,056	304,920	-	-	2,884,345	332	61,862	-	-
Real Estate Activities	307,600	61,109	47,211	-	-	1,409,119	12,140	-	-	-
Other	3,655,645	4,742,911	3,148,590	-	-	7,098,261	23,053	-	-	67,485
Total	**138,380,863**	**10,151,940**	**9,354,564**	**-**	**-**	**37,580,425**	**1,502,045**	**1,454,287**	**-**	**67,485**
Due from banks	**11,156,376**	**5,608**	**141,067**	**8,759,324**	**23,156,425**	**-**	**-**	**-**	**-**	**309,874**

Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.5. Concentration Risk

Loans and receivables from banks and other financial institutions per sector and geograhic concentration of exposure

In thousand RSD

31.12.2015	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**69,213,832**	**2,793,623**	**3,109,882**	**-**	**-**	**5,639,921**	**841,770**	**817,944**	**-**	**-**
Housing Loans	36,468,473	1,477,815	1,350,353	-	-	1,855,829	258,892	63,897	-	-
Cash Loans	16,428,738	699,271	550,128	-	-	868,355	93,816	154,583	-	-
Agricultural Loans	5,203,709	199	161,815	-	-	468,476	1,190	11,691	-	-
Other	5,760,421	136,614	116,418	-	-	646,710	36,388	64,187	-	-
Micro Businesses	5,352,492	479,724	931,168	-	-	1,800,551	451,484	523,586	-	-
Corporate Clients	**81,898,665**	**4,373,186**	**6,248,485**	**-**	**-**	**41,054,364**	**571,382**	**910,825**	**-**	**82,247**
Agriculture	4,856,905	4	30,154	-	-	408,726	-	13,534	-	-
Manufacturing Industry	34,662,561	329,221	1,322,726	-	-	7,821,625	125,772	84,457	-	-
Electric Energy	3,581,791	-	313,457	-	-	12	-	174,960	-	-
Construction	1,848,843	367,683	120,770	-	-	1,417,299	88,983	-	-	-
Wholesale and Retail	23,599,328	630,543	623,428	-	-	6,079,969	163,211	576,936	-	-
Service Activities	7,407,125	1,382,190	136,494	-	-	2,946,890	181,459	60,937	-	-
Real Estate Activities	916,863	123	65,590	-	-	1,122,121	11,957	-	-	-
Other	5,025,248	1,663,422	3,635,867	-	-	21,257,721	-	-	-	82,247
Total	**151,112,497**	**7,166,809**	**9,358,367**	**-**	**-**	**46,694,285**	**1,413,152**	**1,728,769**	**-**	**82,247**
Due from banks	**3,349,982**	**4,512**	**40,796**	**10,465,705**	**3,988,041**	**105,463**	**-**	**-**	**-**	**294,297**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.6. Financial assets

In thousand RSD

	31.12.2016.		31.12.2015.	
	Gross	**Net**	**Gross**	**Net**
Financial Assets:	**140,590,950**	**140,425,071**	**132,976,274**	**132,878,235**
- at fair value through profit and loss, held for trading	247,862	247,862	855,811	855,811
- initially recognized through profit and loss, at fair value	-	-	-	-
- available for sale	139,889,920	139,808,210	131,913,489	131,913,119
- held to maturity	453,168	368,999	206,975	109,306
Changes in fair value which are subject of hedging	**-**	**-**	**-**	**-**
Receivables from financial derivatives, intended for hedging	**-**	**-**	**-**	**-**
Total	**140,590,950**	**140,425,071**	**132,976,275**	**132,878,236**

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 of Treasury bills and bonds issued by the Republic of Serbia, Republic of Srpska, 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) and on internally developed valuation models (mark to model) that used in instances when for certain financial instruments independent sources of market information are not available, and are based on discounting of cash flows with yield curve which respects market conditions. At the end of 2016, the Parent bank and Group members have improved internal methodology for valuation of securities (mark to model) available for sale.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals)

In next tables, the value of collateral is shown at the fair value of the collateral, so that the value of the collateral is shown only up to the amount of gross loans (in case the value of the collateral exceeds the loan amount). When the value of the collateral is lower than the value of gross placements shall disclose the value of the collateral.

The value of collateral and guarantees received in order to mitigate exposure to credit risk arising from loans to customers is shown in the following table:

Loans and receivables from clients covered with collaterals

In thousand RSD

31.12.2016	Impaired receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
By type of loan					
Housing Loans	39,604,776	26,907	-	1,356,856	40,988,538
Cash Loans	522,988	426,336	-	13,130,728	14,080,052
Agricultural Loans	3,302,753	11,014	65,270	2,524,586	5,903,623
Other	19,044	79,538	42	118,553	217,178
Micro Businesses	3,846,727	783,146	16,572	5,825,605	10,472,050
Total Retail	**47,296,287**	**1,326,942**	**81,884**	**22,956,328**	**71,661,442**
Large Corporate Clients	36,310,739	225,990	2,327,661	22,133,666	60,998,056
Middle Corporate Clients	12,087,178	633,427	247,530	13,129,278	26,097,412
Small Corporate Clients	5,430,112	524,260	22,502	6,560,446	12,537,320
State	529,607	18,859	2,274,486	4,685,422	7,508,373
Other	211,322	2,492	-	4,879,811	5,093,625
Corporate Clients	**54,568,958**	**1,405,027**	**4,872,180**	**51,388,623**	**112,234,787**
By Receivables Category					
Non-problematic receivables	**82,218,014**	**2,724,825**	**2,110,689**	**66,709,146**	**153,762,675**
Of which: restructured	3,072,874	5,563	-	14,216	3,092,654
Problematic receivables	**19,647,231**	**7,143**	**2,843,375**	**7,635,805**	**30,133,554**
Of which: restructured	14,795,275	4,337	1,892,942	6,072,255	22,764,808
Non-problematic receivables	**101,865,245**	**2,731,969**	**4,954,064**	**74,344,951**	**183,896,229**
Due from banks	**-**	**-**	**223,425**	**-**	**223,425**

*Other collaterals relate to pledges over goods, pledges over receivables, pledges over equipment, warranties.

Impaired receivables as at 31 December 2016 relate to loans and receivables of the Republic of Serbia, Ministry of Finance of Republic of Serbia which are not covered by collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals) (continued)

Loans and receivables from clients covered with collaterals

In thousand RSD

31.12.2015	Impaired receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
By type of loan					
Housing Loans	38,132,044	61,462	-	1,398,167	39,591,673
Cash Loans	398,360	342,006	-	8,568,493	9,308,859
Agricultural Loans	3,225,304	25,602	109,707	1,772,353	5,132,966
Other	140,442	52,751	-	161,602	354,795
Micro Businesses	4,115,842	612,511	9,328	4,833,437	9,571,118
Total Retail	**46,011,991**	**1,094,333**	**119,035**	**16,734,052**	**63,959,410**
Large Corporate Clients	41,756,029	207,481	2,375,203	26,330,221	70,668,933
Middle Corporate Clients	14,322,737	1,008,736	258,662	14,923,010	30,513,144
Small Corporate Clients	7,005,857	315,207	22,846	5,543,565	12,887,474
State	1,987,767	4,059	5,200,602	6,333,197	13,525,624
Other	401,552	9,966	-	2,055,784	2,467,302
Corporate Clients	**65,473,942**	**1,545,448**	**7,857,313**	**55,185,776**	**130,062,479**
By Receivables Category					
Non-problematic receivables	**89,906,672**	**2,427,967**	**6,665,239**	**58,194,895**	**157,194,773**
Of which: restructured	9,271,892	11,795	-	92,509	9,376,197
Problematic receivables	**21,579,261**	**211,814**	**1,311,108**	**13,724,932**	**36,827,116**
Of which: restructured	9,924,933	11,438	-	6,410,200	16,346,571
Non-problematic receivables	**111,485,933**	**2,639,781**	**7,976,347**	**71,919,827**	**194,021,889**
Due from banks	**-**	**53,267**	**-**	**-**	**53,267**

*Other collaterals relate to pledges over goods, pledges over receivables, pledges over equipment, warranties.

Impaired receivables as at 31 December 2016 relate to loans and receivables of the Republic of Serbia, Ministry of Finance of Republic of Serbia which are not covered by collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals) (continued)

Loans and receivables from clients covered with collaterals (continued)

The ratio of the loan amount and the assessed value of the property held as collateral is monitored by the range of Loan to Value Ratio - LTV ratio.

Overview of loans and receivables secured by collateral according to range of LTV ratio

In thousand RSD

	31. December 2016.	31. December 2015.
Less than 50%	31,218,723	31,405,020
50% - 70%	22,389,267	24,310,756
71% - 100%	24,893,963	23,584,675
101% - 150%	9,345,594	10,955,455
Greater than 150%	25,497,902	35,813,772
Total exposure	**113,345,450**	**126,069,677**
Average LTV	**65,98%**	**53,22%**

4.1.8. 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:

In thousand RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2015.	**734,141**	**3,946,428**	**107,018**	**465,001**	**5,252,588**
Acquisition	-	635,652	6,148	23,114	664,914
Sale	-	(363,998)	(180)	(3,455)	(367,633)
Transfer to invesment proprety	-	(128,724)	-	(16,791)	(145,516)
Transfer to assets held for sale	-	(70,454)	-	-	(70,454)
Transfer to fixed assets	(12,981)	(432,651)	-	(19,628)	(465,260)
Other	20,224	25,953	(13)	8,755	54,920
31.12.2016.	**741,384**	**3,612,206**	**112,973**	**456,997**	**4,923,560**
Impairment Allowances	**(418,130)**	**(1,359,698)**	**(73,773)**	**(151,796)**	**(2,003,398)**
Net	**323,254**	**2,252,508**	**39,200**	**305,201**	**2,920,162**

4. RISK MANAGEMENT (continued)

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.

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 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 and maintains 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.

Identifying liquidity risk 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 Group is performed through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

GAP analysis;
Ratio analysis; and
Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

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 above mentioned 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	
	2016.	**2015.**	**2016.**	**2015.**
As at December 31	2.88	2.71	2.55	2.46
Average for the period	2.97	3.09	2.55	2.78
Maximum for the period	3.56	3.93	3.12	3.57
Minimum for the period	1.91	1.90	1.69	1.68

During 2016 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	2016.	2015.
GAP up to 1 month / Total assets	Max (10%)	6.50%	5.06%
Cumulative GAP up to 3 months / Total assets	Max (20%)	9.61%	6.27%

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

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Maturity structure of monetary assets and monetary liabilities as of December 31, 2016

In thousand RSD

	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	61,919,102	-	-	-	-	61,919,102
Loans and receivables due from other banks and other financial institutions	38,699,907	3,416,190	76,258	1,003,021	21,305	43,216,681
Loans and receivables due from customers	10,316,061	10,959,317	40,699,071	64,663,910	39,762,649	166,401,008
Financial assets (securities)	4,860,113	13,506,392	47,165,297	73,000,869	1,892,400	140,425,071
Other assets	2,106,213	-	3,283	1,124,843	-	3,234,339
Total	**117,901,396**	**27,881,899**	**87,943,909**	**139,792,643**	**41,676,354**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,184,279	1,163,266	2,059,354	3,392,393	23,227	9,822,519
Deposits and other liabilities due to customers	229,259,980	17,393,516	68,559,020	27,635,316	2,288,127	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,681,633	-	1,047,493	-	-	5,729,126
Total	**237,125,892**	**18,556,782**	**77,844,257**	**31,027,709**	**2,311,354**	**366,865,994**
Net liquidity gap						
As of December 31, 2016	**(119,224,496)**	**9,325,117**	**10,099,652**	**108,764,934**	**39,365,000**	**48,330,207**

Maturity structure of monetary assets and monetary liabilities as of December 31, 2015

In thousand RSD

	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 other 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	74,134,060	2,791,281	132,878,236
Other assets	2,238,171	-	27,380	393,589	-	2,659,140
Total	**109,178,196**	**20,609,598**	**81,056,798**	**150,008,203**	**40,851,352**	**401,704,147**
Deposits and other liabilities due to banks, other financial institutions and 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)**	**102,598,686**	**36,555,809**	**52,854,430**

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

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

In near term, the Group manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

The Group's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof. The Group regularly tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2016

In thousand RSD

	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	61,919,102	-	-	-	-	61,919,102
Loans and receivables due from other banks and other financial institutions	38,901,607	3,419,090	85,447	1,011,270	21,349	43,438,763
Loans and receivables due from customers	11,138,192	12,519,359	46,418,317	79,772,254	53,638,769	203,486,891
Financial assets (securities)	4,955,229	13,990,776	48,656,473	75,367,455	2,068,820	145,038,753
Other assets	2,106,484	-	3,283	1,124,843	-	3,234,610
Total	**119,020,614**	**29,929,225**	**95,163,520**	**157,275,822**	**55,728,938**	**457,118,119**
	3,912,444	1,213,108	2,146,198	3,625,156	23,445	10,920,351
Deposits and other liabilities due to banks, other financial institutions and central bank	229,729,201	17,605,076	69,759,228	28,702,591	2,760,998	348,557,094
Deposits and other liabilities due to customers	-	-	6,463,613	-	-	6,463,613
Subordinated liabilities	4,681,636	-	1,047,493	-	-	5,729,129
Total	**238,323,281**	**18,818,184**	**79,416,532**	**32,327,747**	**2,784,443**	**371,670,187**
Net liquidity gap						
As of December 31, 2016	**(119,302,667)**	**11,111,041**	**15,746,988**	**124,948,075**	**52,944,495**	**85,447,932**

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2015

In thousand RSD

	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 other 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	77,843,305	2,945,795	140,366,231
Other assets	2,238,171	-	27,380	393,589	-	2,659,140
Total	**110,334,317**	**23,385,475**	**90,229,530**	**174,767,736**	**51,914,323**	**450,631,381**
	2,751,935	1,351,379	4,759,157	9,622,776	1,915,793	20,401,040
Deposits and other liabilities due to banks, other financial institutions and central bank	177,972,937	23,130,495	86,680,782	34,815,170	2,772,016	325,371,400
Deposits and other liabilities due to customers	-	-	-	6,663,977	-	6,663,977
Subordinated 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)**	**123,665,814**	**47,226,514**	**93,526,559**

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

Market Risk

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 held for trading or to hedge other financial instruments that are maintained in the trading book.

The Group 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, whose decisions can impact the Group's exposure to this risk.

4. RISK MANAGEMENT (continued)

4.3. Interest Risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Group's 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	2016.	2015.
Relative GAP	Max 15%	1.02%	1.15%
Mismatch ratio	0.75 – 1.25	1.01	1.01

During 2016 the Group's interest rate risk ratios were within internally prescribed limits.

Compliance with internally defined limits of economic value of equity:

	2016.	2015.
As at December 31	3.64%	5.18%
Average for the year	4.40%	7.27%
Maximum for the year	5.16%	9.35%
Minimum for the year	3.64%	5.18%
Limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

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

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2016:

In thousand RSD

	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	23,524,673	-	-	-	-	23,524,673	38,394,429	61,919,102
Loans and receivables due from banks and other financial institutions	35,741,374	3,416,217	76,232	202,204	34,637	39,470,664	3,746,017	43,216,681
Loans and receivables due from customers	59,600,330	14,219,797	42,293,851	35,395,821	14,747,903	166,257,702	143,306	166,401,008
Financial assets (securities)	12,391,581	12,256,667	40,730,939	72,860,863	1,937,183	140,177,233	247,838	140,425,071
Other assets	-	-	-	-	-		3,234,339	3,234,339
Total	**131,257,958**	**29,892,681**	**83,101,022**	**108,458,888**	**16,719,723**	**369,430,272**	**45,765,929**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,257,587	4,270,624	1,702,744	560,589	23,228	9,814,772	7,747	9,822,519
Deposits and other liabilities due to customers	233,151,725	20,049,705	65,964,760	22,982,847	1,340,515	343,489,552	1,646,407	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,677,316	5,729,126
Total	**236.409.312**	**24.320.329**	**73.845.894**	**23.543.436**	**1.363.743**	**359.482.714**	**7.383.280**	**366.865.994**
Interest rate GAP -At December 31, 2016	**(105.151.354)**	**5.572.352**	**9.255.128**	**84.915.452**	**15.355.980**	**9.947.558**	**38.382.649**	**48.330.207**

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2015:

In thousand RSD

	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	4,374,306	**131,204,265**	1,673,971	**132,878,236**
Other assets	-	-	-	-	-	**-**	2,659,140	**2,659,140**
Total	**125,463,823**	**44,249,961**	**72,232,021**	**90,525,357**	**18,224,840**	**350,696,002**	**51,008,145**	**401,407,147**
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	**(64,121,992)**	**17,891,257**	**(23,058,185)**	**61,628,577**	**17,030,297**	**9,369,954**	**43,484,476**	**52,854,430**

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

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

The Group's 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.

The Risk of Changes in Interest Rates

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

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

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

In thousand RSD

	Parallel increases by 100 b.p.	**Parallel decreases by 100 b.p.**
2016		
As at December 31	506,708	(506,708)
Average for the year	349,565	(349,565)
Maximum for the year	506,708	(506,708)
Minimum for the year	192,421	(192,421)
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)

4. RISK MANAGEMENT (continued)

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 Asset and Liability Management Committee has the most significant role therein as well as other competent boards/committees, whose decisions can impact the Group's exposure to this risk.

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

In identifying currency risks, 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.

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:

	2016.	**2015.**
Total currency risk balance	6,153,467	6,126,044
Currency risk ratio	11,86%	13,77%,
Legally-defined limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Currency Risk (continued)

Breakdown of Monetary Assets and Monetary Liabilities per currencies as of December 31, 2016

In thousand RSD

	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	32,796,322	231,969	654,526	4,614,679	**38,297,496**	-	-	-	23,621,606	**61,919,102**
Loans and receivables due from banks and other financial institutions	11,649,378	2,637,496	2,778,228	2,114,800	**19,179,902**	-	-	-	24,036,779	**43,216,681**
Loans and receivables due from customers	15,369,043	28	-	2,638,852	**18,007,923**	107,658,995	-	4,983,042	35,751,048	**166,401,008**
Financial assets (securities)	83,889,715	9,901,979	1,818,930	185,300	**95,795,924**	1,073,072	-	-	43,556,075	**140,425,071**
Other assets	851,742	210,122	321	17,732	**1,079,917**	6	-	-	2,154,416	**3,234,339**
Total	**144,556,200**	**12,981,594**	**5,252,005**	**9,571,363**	**172,361,162**	**108,732,073**	**-**	**4,983,042**	**129,119,924**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,824,005	101,829	29,893	199,158	7,154,885	2,114,538	-	-	553,096	**9,822,519**
Deposits and other liabilities due to customers	228,737,756	11,712,026	10,222,561	5,588,114	256,260,457	6,229,574	22,325	-	82,623,603	**345,135,959**
Subordinated liabilities	6,178,390	-	-	-	6,178,390	-	-	-	-	**6,178,390**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,217,490	546,087	47,482	81,447	1,892,506	-	-	-	3,836,620	**5,729,126**
Total	**242,957,641**	**12,359,942**	**10,299,936**	**5,868,719**	**271,486,238**	**8,344,112**	**22,325**	**-**	**87,013,319**	**366,865,994**
Net Currency Position, 31 December 2016	**(98,401,441)**	**621,652**	**(5,047,931)**	**3,702,644**	**(99,125,076)**	**100,387,961**	**(22,325)**	**4,983,042**	**42,106,605**	**48,330,207**

4. RISK MANAGEMENT (continued)

4.4. Currency Risk (continued)

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

In thousand RSD

	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	114,428,917	263	5,390,891	40,405,784	**179,422,656**
Financial assets (securities)	79,793,106	7,478,087	1,665,663	546,168	89,483,024	446,242	-	-	42,948,970	**132,878,236**
Other assets	418,919	92,698	593	27,571	539,781	14	-	-	2,119,345	**2,659,140**
Total	**140,015,103**	**11,675,196**	**5,151,605**	**8,610,643**	**165,452,547**	**114,875,173**	**263**	**5,393,075**	**115,985,272**	**401,704,147**
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**
Deposits and other liabilities due to banks, other financial institutions and the central bank	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, 31 December 2015	**(107,707,877)**	**684,998**	**(5,280,143)**	**3,874,799**	**(108,428,223)**	**106,286,621**	**(5,715)**	**5,390,891**	**49,610,721**	**52,854,430**

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 Bank 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 2016 and 2015 is presented in the table below:

In thousand RSD

	As of December 31	Average	Maximum	Minimum
2016.				
Currency risk	17,477	31,003	79,538	10,576
2015.				
Currency risk	55,129	36,590	187,775	10,250

4.6. Operational Risk

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

Measurement and assessment of operational risk at the Group is done through quantitative and/or qualitative assessment of identified operational risk. The Bank member of 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 exposure to operational risk.

4. RISK MANAGEMENT (continued)

4.6. Operational Risk (continued)

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

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

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

4.7. Investment Risks

The Group's investment risk relates to the risk of investing in other entities and investment properties. 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:

- 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.

Defined exposure limits to a single entity or a group of related entities also relate to entities associated to the Group.

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

4. RISK MANAGEMENT (continued)

4.9. Country Risk

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.10. Fair Value of Financial Assets and Liabilities

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

In thousand RSD

	31.12.2016					31.12.2015	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	166,401,008	163,877,512	-	-	163,877,512	179,422,656	178,509,257
Financial assets held to maturity	368,999	368,999	-	-	368,999	109,306	109,306
Financial Liabilities							
Deposits and other liabilities due to customers	345,135,959	345,083,711	-	-	345,083,711	319,334,622	319,099,716

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 would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the Group's members 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.

4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousand RSD

31.12.2016.	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	247,862	-	-	247,862
Securities available for sale (RSD)	2,038,226	43,826,167	-	45,864,393
Securities available for sale (FC)	1,416,781	92,177,443	431,303	94,025,527
Total	**3,702,869**	**136,003,610**	**431,303**	**140,137,782**

In thousand RSD

31.12.2015.	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)	1,937,561	42,487,488	-	44,425,049
Securities available for sale (FC)	325,803	85,816,599	1,346,037	87,488,439
Total	**3,119,176**	**128,304,087**	**1,346,037**	**132,769,300**

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. RISK MANAGEMENT (continued)

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 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 of the dividend policy.

The Bank's Group 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. Capital requirement for foreign exchange risk at the level of the banking group is equal to the sum of the individual capital requirements for this risk, all members of the banking group, in which the sum of the net open foreign currency position and absolute open position in gold exceeds 2% of their capital.

Capital adequacy ratio		**In thousand RSD**
	2016.	**2015.**
Core capital	47,588,844	40,641,634
Supplementary capital	4,425,745	4,034,778
Deductible items	(121,681)	(190,945)
Capital	**51,892,908**	**44,485,467**
Credit risk-weighted assets	172,570,019	166,568,209
Operational risk exposure	23,173,092	22,226,158
Foreign currency risk exposure	2,720,463	4,167,685
Capital adequacy ratio (minimum 12%)	**26.15%**	**23.05%**

In the course of 2016 capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

4. RISK MANAGEMENT (continued)

4.11. Capital Management (continued)

Through its Capital Management Strategy and Capital Management Plan, the 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 Group is or may be exposed to;
- it provides adequate level of internally available capital according to the Group's risk profile,
- it is included in the 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; 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 reporting period. Estimates and underlying assumptions are continually reviewed and are based on previous experience, as well as on various information available on the day of financial statements preparation, believed to be real and 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(i) (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(i) (vi). For financial instruments that have been traded 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(i) (vii) and 3(n).

Valuation of Financial Instruments

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

5. USE OF ESTIMATES (continued)

Critical Accounting Judgments in Applying the Group's Accounting Policies

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 Bank determines fair values using valuation techniques.

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

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

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

6. SEGMENT REPORTING

6.1. Strategic segment reporting – Group members

The Parent Bank monitors and discloses business operations by segments using two report models:

- Strategic segment reporting - Group members (Note 6.1.) and
- Operating segment reporting- business lines (Note 6.2.).

Information about the results of each reporting segment are shown below.

The Group has four members which represent strategic organizational units:

Komercijalna banka a.d., Beograd, Serbia, the Parent Bank	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d., Budva, Montenegro	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Društvo za upravljanje investicionim fondom a.d., Beograd, Serbia	Includes management of investment funds operations

The Parent Bank monitors and discloses operations by strategic segments – Group members, within its consolidated financial statements. The Group performs most of its operations in the Republic of Serbia. Subsidiaries are not material to the individual financial statements of the Parent Bank.

The Parent Bank total balance amount to 92.6% of the total balance of the consolidated balance sheet (2015: 93.0%).

Total balance of the Komercijalna banka a.d., Budva, amount to 3.1% of the total consolidated assets (2015: 3.0%), Komercijalna banka a.d., Banja Luka, 4.3% (2015: 4.0%) and KomBank INVEST 0.002% (2015: 0.003%).

The result of a strategic segment is used to measure operating performance, since the Parent Bank's management believes that this information is most relevant for evaluating the results of certain strategic segment in comparison with other legal entities operating within these activities on the local market.

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

Prices in commercial transactions between strategic segments are determined on a market basis.

All mutual transactions were eliminated from the balance sheet through consolidation in the amount of RSD 6,387,271 thousand (2015: RSD 7,048,858 thousand). Revenues were eliminated from the income statement in the amount of RSD 35,729 thousand (2015: RSD 35,586 thousand), while the elimination of the expenses amounted to RSD 19,467 thousand (2015: RSD 26,093 thousand).

Balance sheet for the year 2016

In RSD ’000

Aggregated unconsolidated balance sheet	**Amount of balance sheet consolidation**	**Consolidated balance sheet**
435,214,879	**6,387,271**	**428.827.608**
cash/liabilities	723,575	
placements/liabilities	182,809	
stakes/capital	5,480,888	

Income statement for the year 2016

In RSD ’000

Aggregated unconsolidated profit in the income statement (before tax)	**Amount of income statement consolidation**		**Consolidated profit (before profit)**
	income	**expenses**	
(6,549,948)	**35,729**	**19,467**	**(6,533,686)**
interest	5,110	5,110	
fees	9,377	9,377	
exchange difference (reclassified to equity)	21,242	4,980	

Balance sheet for the year 2015

In RSD ’000

Aggregated unconsolidated balance sheet	**Amount of balance sheet consolidation**	**Consolidated balance sheet**
421,927,391	**7,048,858**	**414,878,533**
cash/liabilities	980,087	
placements/liabilities	587,883	
stakes/capital	5,480,888	

Balance sheet for the year 2015

In RSD ’000

Aggregated unconsolidated profit in the income statement (before tax)	**Amount of income statement consolidation**		**Consolidated balance sheet**
	income	**expenses**	
(7,141,324)	**35,586**	**26,093**	**(7,131,831)**
interest	8,968	8,968	
fees	7,996	7,996	
exchange difference (reclassified to equity)	18,622	9,129	

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

A. BALANCE SHEET – CONSOLIDATED as at December 31st 2016

For each of the strategic organizational units, the management of the Parent Bank controls the internal management reports on at least a quarterly basis. Below is an overview of the activities of the strategic segments of the consolidated balance sheet and consolidated income statement for the 2016 and 2015:

In RSD '000

	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	55,153,209	2,421,787	4,344,106	-	61,919,102
Financial assets at fair value through profit and loss, held for trading	242,920	-	-	4,942	247,862
Financial assets available for sale	136,123,853	2,627,938	1,056,419	-	139,808,210
Financial assets held to maturity	-	368,999	-	-	368,999
Loans and receivables due from banks and other financial institutions	40,418,884	490,798	2,306,999	-	43,216,681
Loans and receivables due from customers	150,411,409	5,860,668	10,128,931	-	166,401,008
Intangible assets	362,507	12,826	19,213	-	394,546
Property, plant and equipment	5,856,458	347,360	47,319	50	6,251,187
Investment property	2,217,816	118,842	271,393	-	2,608,051
Current tax assets	-	-	7,283	-	7,283
Non-current assets held for sale and assets from discontinued operations	183,170	-	166,353	-	349,523
Other assets	6,252,584	963,105	37,976	1,491	7,255,156
TOTAL ASSETS	**387,222,810**	**13,212,323**	**18,385,992**	**6,483**	**428,827,608**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

A. BALANCE SHEET – CONSOLIDATED as at December 31st 2016 (continued)

In RSD '000

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to banks, other financial institutions and the Central bank	7,111,380	256,639	2,454,500	-	9,822,519
Deposits and other liabilities due to customers	322,621,360	10,726,250	11,788,349	-	345,135,959
Subordinated liabilities	6,178,390	-	-	-	6,178,390
Provisions	1,787,294	204,768	28,647	798	2,021,507
Current tax liabilities	-	7,543	746	738	9,027
Deferred tax liabilities	23,592	25,451	4,414	-	53,457
Other liabilities	6,147,567	79,092	86,251	1,419	6,314,329
Total liabilities	**343,869,583**	**11,299,743**	**14,362,907**	**2,955**	**369,535,188**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(5,584,250)	(953,509)	26,197	27,191	(6,502,689)
Reserves	25,026,243	563,736	170,665	(151)	25,760,493
Non-controlling shares	-	-	66	-	66
Total equity	**59,476,543**	**(389,773)**	**198,928**	**8,722**	**59,292,420**
Total liabilities and equity	**403,346,126**	**10,909,970**	**14,559,835**	**11,677**	**428,827,608**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

B. BALANCE SHEET – CONSOLIDATED as at December 31st 2015

In RSD '000

	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	128,756,408	1,937,561	1,219,150	-	131,913,119
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	**387,378,734**	**12,497,800**	**16,469,869**	**115,155**	**416,461,558**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

B. BALANCE SHEET – CONSOLIDATED as at December 31st 2015 (continued)

In RSD '000

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
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	329,258	9,433	2,556	-	341,247
Other liabilities	4,920,368	44,223	54,275	1,100	5,019,966
Total liabilities	**329,614,109**	**10,036,440**	**12,114,765**	**1,842**	**351,767,156**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(6,636,639)	47,569	(158,851)	(18,318)	(6,766,239)
Reserves	30,516,155	598,854	311,138	(121)	31,426,026
Non-controlling shares	-	-	65	-	65
Total equity	**63,914,066**	**646,423**	**152,352**	**(18,439)**	**64,694,402**
Total liabilities and equity	**393,528,175**	**10,682,863**	**12,267,117**	**(16,597)**	**416,461,558**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

C. INCOME STATEMENT – CONSOLIDATED for the year ended on December 31st 2016

In RSD '000

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	16,683,969	529,622	719,495	1,733	17,934,819
Interest expenses	(3,226,337)	(98,103)	(154,046)	-	(3,478,486)
Net interest income	**13,457,632**	**431,519**	**565,449**	**1,733**	**14,456,333**
Fee and commission income	6,245,829	148,842	231,988	16,630	6,643,289
Fee and commission expenses	(1,432,220)	(44,378)	(72,861)	(307)	(1,549,766)
Net fee and commission income	**4,813,609**	**104,464**	**159,127**	**16,323**	**5,093,523**
Net gains on the financial assets held for trading	70,478	-	-	5,845	76,323
Net gains on the financial assets available for sale	69,062	83,562	18,778	23,166	194,568
Net foreign exchange gain/loss and currency clause effects	11,662	(2,127)	(3,450)	(9)	6,076
Other operating income	578,378	8,561	26,167	13	613,119
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(12,038,510)	(995,139)	(45,848)	-	(13,079,497)
Total operating income	**6,962,311**	**(369,160)**	**720,223**	**47,071**	**7,360,445**
Staff costs	(4,498,212)	(254,657)	(294,797)	(11,803)	(5,059,469)
Depreciation and amortization charge	(666,025)	(28,803)	(34,861)	(37)	(729,726)
Other expenses	(7,294,544)	(459,196)	(345,414)	(5,782)	(8,104,936)
(Loss)/Profit before taxes	**(5,496,470)**	**(1,111,816)**	**45,151**	**29,449**	**(6,533,686)**
Income tax	-	(7,543)	(12,921)	(854)	(21,318)
Gain on deferred taxes	314,453	1,265	-	-	315,718
Loss on deferred taxes	-	(1,844)	-	-	(1,844)
Profit/(loss) for the year	**(5,182,017)**	**(1,119,938)**	**32,230**	**28,595**	**(6,241,130)**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

D. INCOME STATEMENT – CONSOLIDATED for the year ended on December 31st 2015

In RSD '000

	Комерцијална банка а.д. Београд	Комерцијална банка а.д. Будва	Комерцијална банка а.д. Бања Лука	КомБанк ИНВЕСТ а.д. Београд	Укупно
Interest income	19,085,626	647,408	786,062	12,135	20,531,231
Interest expenses	(5,326,488)	(169,238)	(196,132)	-	(5,691,858)
Net interest income	**13,759,138**	**478,170**	**589,930**	**12,135**	**14,839,373**
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)
Укупан пословни приход	**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	**(6,168,623)**	**(602,805)**	**(126,295)**	**4,165**	**(6,893,558)**
Income tax	-	(685)	(21,384)	(142)	(22,211)
Gain on deferred taxes	114,554	265	-	-	114,819
Loss on deferred taxes	(27)	(76)	-	(5)	(108)
Profit/(loss) for the year	**(6,054,096)**	**(603,301)**	**(147,679)**	**4,018**	**(6,801,058)**

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

The Parent Bank has three operating segments:

- Operations with corporate sector of Parent Bank – Includes loans, deposits and other transactions with legal entities other than banks,
- Operations with retail sector of Parent Bank – Includes loans, deposits and other transactions with retail customers, micro businesses, entrepreneurs and agriculture clients, and
- Investment banking and interbank operations of Parent Bank – Includes transactions with securities and other financial instruments, as well as transactions with banks.

Group members operate as independent entities on their local markets. The results of operations of the Group members are presented in Note 6.1.

Bearing in mind that the Parent Bank accounts for more than 92% of consolidated total assets, for the purposes of reporting by operating segments, it has conducted the changes in methodology of representing business results by segment at the Group level for the years 2016 and 2015 Changing the methodology assumes that the business of dependent Group members is shown in one segment (subsidiaries) and the operations of the Parent Bank (as the dominant member of the Group) is shown separately for the segments of retail, corporate and investment banking and interbank operations. Column "adjustments and consolidation" separately shows amounts for the positions that are consolidated, and the amount of share impairment of the Parent Bank in subsidiary banks.

When considering profitability / results of each segment, other than income and expenses generated from operations with clients, income and expenses from internal relations calculated using transfer prices that are determined based on market prices (net income/expenses from internal relations), have to be included, as well as part of net income / expenses which are reported from operations with subsidiaries by Parent Bank.

Impairment losses had a decisive impact on the result in 2016, which amounted to RSD 13,079,497 thousand (of which the Corporate segment accounted for RSD 11,021,735 thousand).

At the height of result before indirect operating expenses in 2016 significant impact had net losses due to a changes in valuation of fixed assets and investment properties, so the Group recorded a loss from other income and expenses in the amount of RSD 646.899 thousand for the year 2016

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

When creating segment reports, operating expenses are divided into direct operating expenses (directly controlled by business segments or directly attributable to the business segments) and indirect operating expenses (the amount of these costs is not under the direct control segments or there is not a direct connection to the business segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at the Bank level amounted to RSD 8,235,975 thousand and make up 66.6% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

To the segment of retail banking refer the amount of RSD 5,250,911 thousand of direct costs (63.8% of total direct costs) as a result of large business network and number of employees in the retail sector.

In fiscal 2016, despite a stable level of net interest income and fees, the Bank recorded a negative result before tax in the amount of 6,533,686 thousand RSD as a result of already mentioned high amount of impairment losses.

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

Operating segment report for 2016 is provided below:

In RSD '000

31.12.2016	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6.622.978	3.806.948	6.254.043	-	1.250.850	-	17.934.819
Interest expenses	(1.680.595)	(409.129)	(1.136.613)	-	(252.149)	-	(3.478.486)
Net interest income	4.942.383	3.397.819	5.117.430	-	998.701		14.456.333
Net income/expenses from related party transactions	(434.154)	(1.166.544)	1.605.800	-	(5.102)	-	-
Net fees	3.040.383	1.335.521	437.705	-	279.914	-	5.093.523
Net fees from related party transactions	-	-	3.705	-	(3.705)	-	-
Profit before impairment allowance	7.548.612	3.566.796	7.164.640	-	1.269.808	-	19.549.856
Net gains/losses from impairment allowance	(858.376)	(11.021.735)	(158.399)	-	(1.040.987)	-	(13.079.497)
Subsidiaries imapairment allowance	-	-	(2.869.029)	-	-	2.869.029	-
Profit before operating expenses	6.690.236	(7.454.939)	4.137.212	-	228.821	2.869.029	6.470.359
Direct operating expenses	(5.250.911)	(1.841.981)	(292.810)	-	(850.273)	-	(8.235.975)
Net exchange rate gain/(loss)	-	-	11.662	-	(5.586)	-	6.076
Net exchange difference from related parties transactions	-	-	(20.944)	-	4.682	16.262	-
Net other income/(expenses)	(18.075)	(555.513)	(80.417)	-	7.106	-	(646.899)
Profit before indirect operating expenses	1.421.250	(9.852.433)	3.754.703	-	(615.250)	2.885.291	(2.406.439)
Indirect operating expenses	(2.020.778)	(1.340.184)	(340.194)	-	(426.091)	-	(4.127.247)
Profit before taxes	**(599.528)**	**(11.192.617)**	**3.414.509**	**-**	**(1.041.341)**	**2.885.291**	**(6.533.686)**
Assets per segment							
Cash and cash equivalents	-	-	55.153.209	-	6.765.893	-	61.919.102
Cash from related parties transactions	-	-	-	-	723.575	(723.575)	-
Placements with banks	-	-	40.418.884	-	2.797.797	-	43.216.681
Placements with banks from related parties transactions	-	-	182.530	-	6	(182.536)	-
Placements with customers	75.323.551	75.087.858	-	-	15.989.599	-	166.401.008
Investment securities	-	-	136.366.773	-	4.058.298	-	140.425.071
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	14.872.536	1.993.210	-	16.865.746
Other from related parties transactions	-	-	-	270	2	(272)	-
	75.323.551	**75.087.858**	**234.733.255**	**14.872.806**	**32.328.380**	**(3.518.242)**	**428.827.608**
Liabilities per segment							
Liabilities to banks	-	-	7.111.380	-	2.711.139	-	9.822.519
Liabilities to banks from related parties transactions	-	-	723.581	-	182.530	(906.111)	-
Liabilities to customers	232.633.347	78.399.262	11.588.751	-	22.514.599	-	345.135.959
Subordinated liabilities	-	-	6.178.390	-	-	-	6.178.390
Other	-	-	-	7.958.453	439.867	-	8.398.320
Other from related parties transactions	-	-	-	2	270	(272)	-
	232.633.347	**78.399.262**	**25.602.102**	**7.958.455**	**25.848.405**	**(906.383)**	**369.535.188**

* Loans to micro clients are presented within Retail banking segment
** Indirect operating expenses refer to expenses that are not controlled by the business segments

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

Operating segment report for 2015 is provided below:

In RSD '000

31.12.2015	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	7.139.614	5.629.550	6.316.462	-	1.445.605	-	20.531.231
Interest expenses	(2.888.157)	(792.233)	(1.646.098)	-	(365.370)	-	(5.691.858)
Net interest income	4.251.457	4.837.317	4.670.364	-	1.080.235		14.839.373
Net income/expenses from related party transactions	418.841	(2.990.460)	2.580.563	-	(8.944)	-	-
Net fees	2.856.272	1.337.960	703.299	-	292.751	-	5.190.282
Net fees from related party transactions	-	-	2.416	-	(2.416)	-	-
Profit before impairment allowance	7.526.570	3.184.817	7.956.642	-	1.361.626		20.029.655
Net gains/losses from impairment allowance	(369.263)	(12.631.988)	(7.275)	-	(799.054)	-	(13.807.580)
Subsidiaries imapairment allowance	7.157.307	(9.447.171)	7.949.367	-	562.572		6.222.075
Profit before operating expenses	(5.633.246)	(1.717.832)	(294.841)	-	(1.301.215)	-	(8.947.134)
Direct operating expenses	-	-	5.183	-	(11.549)	-	(6.366)
Net exchange rate gain/(loss)	-	-	(18.622)	-	9.129	9.493	-
Net exchange difference from related parties transactions	(153.080)	(872.718)	3.358	-	550.589	-	(471.851)
Net other income/(expenses)	1.370.981	(12.037.721)	7.644.445	-	(190.474)	9.493	(3.203.276)
Profit before indirect operating expenses	(1.726.360)	(1.107.322)	(319.908)	-	(536.692)	-	(3.690.282)
Profit before taxes	**(355.379)**	**(13.145.043)**	**7.324.537**	**-**	**(727.166)**	**9.493**	**(6.893.558)**
Assets per segment							
Cash and cash equivalents	-	-	63.523.715	-	5.371.503	-	68.895.218
Cash from related parties transactions	-	-	-	-	980.087	(980.087)	-
Placements with banks	-	-	16.263.827	-	1.585.070	-	17.848.897
Placements with banks from related parties transactions	-	-	580.173	-	7.632	(587.805)	-
Placements with customers	70.750.545	91.992.020	-	-	16.680.091	-	179.422.656
Investment securities	-	-	129.607.464	-	3.270.772	-	132.878.236
Investments in subsidiaries	-	-	5.480.888	-	-	(5.480.888)	-
Other	-	-	-	15.241.164	2.175.387	-	17.416.551
Other from related parties transactions	-	-	-	78	-	(78)	-
	70.750.545	**91.992.020**	**215.456.067**	**15.241.242**	**30.070.542**	**(7.048.858)**	**416.461.558**
Liabilities per segment							
Liabilities to banks	-	-	16.171.598	-	2.597.128	-	18.768.726
Liabilities to banks from related parties transactions	-	-	987.719	-	580.173	(1.567.892)	-
Liabilities to customers	221.167.282	55.719.125	23.119.496	-	19.328.719	-	319.334.622
Subordinated liabilities	-	-	6.077.962	-	-	-	6.077.962
Other	-	-	-	7.358.646	227.200	-	7.585.846
Other from related parties transactions	-	-	-	-	78	(78)	-
	221.167.282	**55.719.125**	**46.356.775**	**7.358.646**	**22.733.298**	**(1.567.970)**	**351.767.156**

* Loans to micro clients are presented within Retail banking segment

** Indirect operating expenses refer to expenses that are not controlled by the business segments

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

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

(ii) Assets for which fair value approximates carrying value

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

(iii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates 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. НЕТО ПРИХОДИ ОД КАМАТА

Net interest income includes:

	In RSD '000 For the year ended 31 December 2016	2015
Loans and receivables due from banks	374,300	153,987
Loans and receivables due from customers	11,532,107	14,054,825
Central Bank	475,643	667,426
Investment securities	5,552,769	5,654,993
Total interest income	**17,934,819**	**20,531,231**
Deposits from and liabilities due to banks	301,021	221,779
Deposits from and liabilities due to customers	2,393,200	4,365,345
Borrowings received	784,265	1,104,734
Total interest expenses	**3,478,486**	**5,691,858**
Net interest income	**14,456,333**	**14,839,373**

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

In accordance with the requirements of IAS 8 in the part of the disclosure of the previous year, comparative data presented last year at the position of interest income from investment securities have been adjusted in the amount of RSD 238,273 thousand. The total net operating income and loss before and after tax have been adjusted for the same amount.

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	In RSD '000 For the year ended 31 December 2016	2015
Fees and commission income in domestic currency		
Payment transfer operations	3,050,088	2,880,097
Fees on issued loans and guarantees - retail customers	27,006	21,407
Fees on issued loans and guarantees - corporate customers	183,068	205,396
Fees on purchase and sale of foreign currencies	453,082	617,338
Brokerage and custody fees	62,001	78,483
Fees arising from card operations	1,540,401	1,348,531
Credit Bureau processing fees	88,011	88,021
Other banking services	617,090	603,283
	6,020,747	**5,842,556**
Fees and commission income in foreign currencies		
Payment transfer operations	309,446	305,185
Fees on issued loans and guarantees - corporate customers	29,804	30,078
Brokerage and custody fees	9,011	7,353
Fees arising from card operations	176,070	109,585
Other banking services	98,211	96,636
	622,542	**548,837**
	6,643,289	**6,391,393**
Fee and commission expenses in domestic currency		
Payment transfer operations	(121,816)	(162,025)
Fees arising on purchase and sale of foreign currencies	(33,396)	(66,890)
Fees arising from card operations	(520,990)	(334,689)
Credit Bureau processing fees	(72,978)	(73,013)
Other banking services	(146,738)	(129,859)
	(895,918)	**(766,476)**
Fee and commission expenses in foreign currencies		
Payment transfer operations	(83,444)	(82,268)
Fees arising from card operations	(351,700)	(300,213)
Other banking services	(218,704)	(52,154)
	(653,848)	**(434,635)**
	(1,549,766)	**(1,201,111)**
Net fee and commission income	**5,093,523**	**5,190,282**

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

		In RSD '000 For the year ended 31 December
	2016	**2015**
Gains on the fair value adjustment of securities – bonds	-	2,055
Gains on the fair value adjustment of securities – investment units	3,141	9,640
Gains on the fair value adjustment of securities – shares	-	952
Gains on the sales of securities at fair value through profit and loss	75,897	5,809
	79,038	**18,456**
Losses on the fair value adjustment of securities – shares	-	(52)
Losses on the fair value adjustment of securities – bonds	-	(11,217)
Losses on the fair value adjustment of securities – investment units	(34)	-
Losses on the sales of securities and other financial assets held for trading	(2,681)	(2,923)
	(2,715)	**(14,192)**
Net gains on the financial assets held for trading	**76,323**	**4,264**

11. NET GAINS/LOSSES ON FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

		In RSD '000 For the year ended 31 December
	2016	**2015**
Gains on the sale of securities available for sale	195,433	72,153
Losses on the sale of securities available for sale	(865)	(52,819)
Net gains on the financial assets available for sale	**194,568**	**19,334**

Gains on the sale of securities available for sale of RSD 195,433 thousand relate to the gains from the sale of old foreign currency savings bonds (2016 series) in the amount of RSD 13,925 thousand, the Republic of Serbia Treasury bills in the amount of RSD 18,490 thousand, the Republic of Serbia bonds in domestic currency in the amount of RSD 4,193 thousand and bonds in foreign currencies RSD 128,109 thousand, as well as foreign banks bonds in the amount of RSD 30,716 thousand.

Losses on securities available for sale in the amount of RSD 865 thousand relate to losses from the sale of bonds of the Republic of Serbia in the amount of RSD 860 thousand and the banks' bonds in the amount of RSD 5 thousand.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	In RSD '000 For the year ended 31 December 2016	2015
Positive currency clause effects	2,510,561	3,911,977
Positive currency clause effects – value adjustment of securities	13,227	40,516
Foreign exchange gains – value adjustment of securities	13,173	184,665
Positive currency clause effects – retail customers	1,281,370	2,935,203
Foreign exchange gains	3,988,051	4,455,767
	7,806,382	**11,528,128**
Negative currency clause effects	(1,437,016)	(3,403,198)
Negative currency clause effects – value adjustment of securities	(5,290)	(37,868)
Negative currency clause effects – value adjustment of liabilities	(37,809)	(228,029)
Negative currency clause effects – retail customers	(616,606)	(2,041,942)
Foreign exchange losses	(5,703,585)	(5,823,457)
	(7,800,306)	**(11,534,494)**
Net expense	**6,076**	**(6,366)**

13. OTHER OPERATING INCOME

a) Other operating income relates to:

	In RSD '000 For the year ended 31 December 2016	2015
Other income from operations	173,685	170,913
Other income	400,856	300,124
Gains on the reversal of provisions for the litigations	1,020	-
Gains on the valuation of property and equipment	32,415	-
Total	**607,976**	**471,037**

13. OTHER OPERATING INCOME (continued)

Within the other income from operations, the largest amounts relate to: income arising from lease of properties in the amount of RSD 98,854 thousand, of which RSD 74,929 thousand is income from leasing of properties for business purposes, the income from collection of court costs the amount of RSD 27,928 thousand, refunds of municipal costs in the amount of RSD 19,515 thousand, charged costs of business mobile phones in the amount of RSD 9,028 thousand and collection of subsequent damages from insurance companies in the amount of RSD 6,387 thousand.

During 2016 the Parent Bank has received dividends from investments and shares for trading in the amount of RSD 15,712 thousand (2015: RSD 4,927 thousand) and and those form part of the position of other income.

Within the other income in 2016, the most significant item is the Parent bank's income from:

- The reversal of liabilities in the amount of RSD 127,012 thousand, on the basis of revenue recognition of materially insignificant funds on clients' bank accounts, which on December 31, 2016 fulfilled requirements prescribed by decision of Executive Board,
- The reversal of liabilities on the basis of overpayment in the total amount of RSD 75,845 thousand, out of which about RSD 70,649 thousand relate to the earning based on the taxes paid for contracts and invoices with Visa and MasterCard in 2014 and 2015, for which, according to opinion of Ministry of Finance of Republic of Serbia, there was no obligation to pay,
- Rental income from previous years on the basis of revenue recognition for payments made in 2014 and 2015 by the client Politika Newspapers and Magazines in the amount of RSD 62,480 thousand,
- Gains on the sales of assets acquired in the lieu of debt collection in the amount of RSD 4,320 thousand,
- Gains on sales of property and equipment previously used in business activity on the amount of RSD 506 thousand.

b) Net gains on investments

	In RSD '000 For the year ended 31 December 2016	2015
Gains on sales of AIK bank Niš shares	5,143	-
Total	**5,143**	**-**

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:

	In RSD '000 For the year ended 31 December 2016	2015
Impairment allowance of loans and receivables	24,325,456	24,284,742
Provisions for off-balance sheet items	701,750	647,438
Reversal of impairment allowance of loans and receivables	15,498	126
Reversal of provisions for off-balance sheet items	(11,121,231)	(10,451,493)
Income from collection of receivables previously written-off	(784,280)	(673,059)
Impairment allowance of loans and receivables	(57,696)	(174)
Total	**13,079,497**	**13,807,580**

Within the expenses on impairment of balance sheet items, the Group has also recorded impairment of foreclosed assets acquired through collection of receivables in the amount of RSD 907,816 thousand, based on the valuation of real estate and equipment by a certified appraiser (2015: RSD 996,836 thousand).

Until the end of January 2017, the Group did not have material collections of loans and previously impaired receivables 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 29)	Off-balance sheet liabilities (Note 33)	Total
Balance as of January 1, 2016	**399,898**	**38,133,470**	**98,039**	**2,639,054**	**575,406**	**41,845,867**
New impairment allowance	4,051	22,616,148	82,166	1,623,091	701,750	25,027,206
Decrease in impairment allowance	(2,077)	(10,931,042)	(941)	(187,171)	(784,280)	(11,905,511)
Foreign exchange effects	15,585	482,991	115	16,348	616	515,655
Write-offs	(105,463)	(18,912,206)	(13,500)	(114,838)	-	(19,146,007)
Other movements	-	701,241	-	(400,073)	-	301,168
Balance as of December 31, 2016	**311,994**	**32,090,602**	**165,879**	**3,576,411**	**493,492**	**36,638,378**

In 2016, the Gank has reported the increase in net expense on impairment allowances and provisions in total amount RSD 13,121,695 thousand. Income from collection of written-off receivables in the amount of RSD 57,695 thousand mostly relates to clients HI Župa Kruševac, Jugotehnika Novi Sad and Niš Niteks.

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

Other changes in the accounts of impairment and provisions, amount of RSD 19,146,007 thousand refers to the reduction on the basis of transfer of permanent write-offs to the Parent Bank's off-balance sheet.

In 2016, the fair value of shares (investments) in subsidiaries was assessed and an impairment was recognized as an expense in the amount of RSD 2,869,029 thousand in individual financial reports of the Parent bank in accordance with the relevant IAS/IFRS. This impairment has not been included in the consolidated financial statements.

15. STAFF COSTS

Staff costs include:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Net salaries	3,010,170	2,774,740
Net benefits	488,056	447,887
Payroll taxes	442,875	412,675
Payroll contributions	963,233	919,989
Considerations paid to seasonal and temporary staff	17,670	14,339
Provisions for retirement benefits - net	50,724	41,634
Other staff costs	86,741	82,059
Total	**5,059,469**	**4,693,323**

16. DEPRECIATION/AMORTIZATION CHARGE

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Amortization charge – intangible assets (Note 25.2)	224,443	267,854
Depreciation charge – property and equipment (Note 26.2)	449,499	542,847
Depreciation charge – investment property (Note 27.1)	55,784	55,286
Total	**729,726**	**865,987**

17. OTHER EXPENSES

Other expenses include:

	In RSD '000 For the year ended 31 December 2016	2015
Cost of materials	386,972	472,907
Cost of production services	2,330,253	2,451,135
Non-material costs (without taxes and contributions)	2,956,348	2,698,784
Taxes payable	158,401	189,386
Contributions payable	767,084	731,505
Other costs	25,695	30,918
Other expenses	314,815	966,485
Losses on the valuation of property and equipment, investment property and intangible assets	676,944	59,072
Provisions for litigations (Note 33)	488,424	444,400
Total	**8,104,936**	**8,044,592**

a) Other expenses

Within the other expenses of the Parent bank in total amount of RSD 305,835 thousand among other, following items were recorded:

- Expenses arising from outflows after the lost court dispute with the client "Republic of Serbia Ministry of Finance regarding Intereksport in bankruptcy in the amount of RSD 125,567 thousand (Note 33a)
- Expenses on the basis of invoices paid to the insurance company for life insurance policies of clients endorsed in favour of Bank in the amount of RSD 85,500 thousand. Policies are used as collateral for retail loans.
- Costs arising from the acquisition of foreclosed assets acquired through collection of receivables in the amount of RSD 19,972 thousand.

б) Provision for litigations

Expenses related to provisions for litigation of the Parent bank in the total amount of RSD 368,501 thousand (Note 33) relate to:

- The increase in expenditure for new legal claims - new claims (thirty individual cases) during 2016, of which, only on the basis of the complaint of one person for a unjust enrichment and retention of net dividends, provision was made in the amount of RSD 163, 756 thousand,
- Increased expenditure on active cases from previous years, out of which amount of RSD 24,739 thousand relates to the increase in the provision for the dispute with the Agency for Privatization based on the activation of the guarantee for good performance (from 14 January 2005 on behalf of Vektra M d.o.o., Belgrade), and an expense of RSD 36,221 thousand relate to the increase in provisions for litigation with Intereksport ad, Beograd (in liquidation) on the basis of reducing the present value of the obligation, on the basis of: the growth rate of the RSD against the USD, as well as the accrued interest for the previous year at the statutory interest rate.

18. INCOME TAXES

The Parent Bank does not have the abilities for fiscal consolidation on the basis of existing regulations in the Republic of Serbia. Final amounts of liabilities arising from income taxes Group members determine by applying the tax rate on the tax base prescribed by municipal regulations, and disclose in the respective notes to its annual statutory financial statements.

Tax rates for the year 2016 were:

Republic of Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

Income tax components for the Group as at December 31 consist of:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Current income tax	(21,318)	(22,211)
Deferred income tax benefits	315,718	114,819
Deferred income tax expense	(1,844)	(108)
Total	**292,556**	**92,500**

Taking into account impossibility of tax consolidation, income tax components are disclosed separately as follows:

18.1. The Parent Bank

18.1.1. Income tax components as at December 31 consist of:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Deferred income tax benefits	314,453	114,554
Deferred income tax expense	-	(27)
Total	**314,453**	**114,527**

In 2016 and 2015 the Bank did not report current income tax expenses pursuant to the effective tax regulations.

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

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

In RSD '000

	2016	2016	2015	2015
Profit for the year before taxes		(8,377,636)		(6,175,885)
Tax calculated using the local income tax rate	-15%	(1,256,645)	-15%	(926,383)
Expenses not recognized for tax purposes	7,82%	655,221	22.77%	1,406,244
Tax effects of the net capital losses /gains	-0,07%	(6,169)	-0.09%	(5,773)
Tax effects of income reconciliation	-0,12%	(9,686)	-0,06%	(3,749)
Tax credit received and used in the current year	0,07%	6,169	0.09%	5,773
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-10,11%	(846.851)	-12.54%	(774,755)
Tax effect adjustments (used and new ones)	-3,75%	(314.453)	-1.85%	(114,527)
Tax effects stated within the income statement		**314,453**		**114,527**

Expenses not recognized for tax purposes totaling RSD 655,221 thousand, mostly relate to the effects of increased impairment allowance in the amount of RSD 589,327 thousand (15% of RSD 3,928,849 thousand).

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

In RSD '000
For the year ended
31 December

	2016	2015
Balance as at January 1	(329,258)	(150.407)
Occurrence and reversal of temporary differences	305,666	(178,851)
Balance as at December 31	**(23,592)**	**(329,258)**

18.1.4. Current tax assets:

In RSD '000
For the year ended
31 December

	2016	2015
Current tax assets (paying a monthly installment income tax for 2016 according to the Income tax law)	-	37,017

During 2016, the Bank did not pay income tax, as reported tax loss in the 2015. Overpayment from past periods is used in the compensation, upon payment of value added tax. Current tax assets by the end of 2016 were completely used.

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

18.1.5. Deferred tax assets and liabilities

18.1.5.1. Deferred tax assets and liabiltiies relate to:

In RSD '000

	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	77,473	-	77,473	-	(30,336)	(30,336)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	899	(566,448)	(565,549)	40,225	(511,754)	(471,529)
Long-term provisions for retirement benefits	41,978	-	41,978	36,180	-	36,180
Impairment of assets	284,297	-	284,297	136,427	-	136,427
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period						
Provisions for litigations	1,134	-	1,134	-	-	-
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	137,075	-	137,075	-	-	-
Total	**542,856**	**(566,448)**	**(23,592)**	**212,832**	**(542,090)**	**(329,258)**

Brought forward tax losses that have not been recognized in the books and based on which current tax assets have not been generated amount to RSD 20,492,211 thousand and they relate to accumulated tax losses realized in 2014, 2015 and 2016 These can be used as compensation for Corporate Income Tax in the following years.

Deferred tax assets are not recognized also on tax credits for investments in fixed assets in the amount of RSD 15,692 thousand neigher on tax credits for inter-company dividends in the amount of RSD 13,154 thousand.

Overview of tax credits for which deferred tax assets were not recognized:

In RSD '000

Type of tax credit	**Year**	**Amount as at 31.12.2015**	**Amount as at 31.12.2016**	**Expiration date of use**
Tax losses carried forward	2014	388,385	388,385	2019
	2015	10,384,084	10,384,084	2020
	2016	-	9,719,742	2021
Total tax losses carried forward			**20,492,211**	
Impact of tax losses on future income tax (20,492,210 * 15%)			3,073,832	од 2019 -2021
Tax credit on the basis of investment in fixed assets	2013	15,692	15,692	2023
Tax credit on the basis of intercompany dividends	2014	19,323	13,154	2019
Total tax credits for future income tax liabilities			**3,102,678**	

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

18.1.5.2. Movements in temporary difference during 2016 and 2015 are shown as follows:

In RSD '000

2016	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	(30,336)	104,920	(3,073)	5,962	77,473
Securities	(471,529)	-	(94,020)	-	(565,549)
Long term provisions for employee benefits	36,180	5,254	544	-	41,978
Impairment of assets	136,427	147,870		-	284,297
Assets based on the payment of other employee liabilities	-	1,134	-	-	1,134
Provisions for legal disputes	-	55,275	-	81,800	137,075
Total	**(329,258)**	**314,453**	**(96,549)**	**87,762**	**(23,592)**

2015	As at 1 January	Through P&L	Through OCI	As at 31 December
Property, plant and equipment	(64,287)	34,022	(71)	(30,336)
Securities	(173,039)	-	(298,490)	(471,529)
Long term provisions for employee benefits	26,750	4,247	5,183	36,180
Impairment of assets	60,142	76,285	-	136,427
Assets based on calculation of public duties	27	(27)	-	-
Total	**(150,407)**	**114,527**	**(293,378)**	**(329,258)**

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

18.6 Tax effects relating to Other comprehensive income

In thousand RSD

	2016			2015		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities available for sale	364,619	(54,693)	309,926	1,987,947	(298,105)	1,689,842
Net decrease due to actuarial losses	(3,626)	544	(3,082)	(34,552)	5,183	(29,369)
Valuation of property	58,580	(3,073)	55,507	(234)	(71)	(305)
Decrease due to fair value adjustments of equity investments and securities available for sale	262,184	(39,327)	222,857	2,568	(385)	2,183
Total	**681,757**	**(96,549)**	**585,208**	**1,955,729**	**(293,378)**	**1,662,351**

18.2. Komercijalna banka a.d., Budva

18.2.1. Income tax components as at December 31 consist of:

In RSD '000
For the year ended
31 December

	2016	2015
Tax expense	(7,544)	(685)
Deferred income tax benefits	1,265	265
Deferred income tax expense	(1,844)	(76)
	(8,122)	**(496)**

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

	2016	2016	2015	2015
(Loss) / Profit before tax		**(1,111,428)**		**(606,022)**
Tax calculated at the local rate of 9%	9.00%	(100,028)	9.00%	(54,542)
Taxable income - related parties and capital gains	-0.68%	7,543	-0.11%	685
Tax deductible expenses	-0.11%	1,216	-0.05%	319
Tax credits	-7.53%	83,726	-8.92%	54,034
Effective income tax	-0.68%	(7,543)	-0.08%	496
Tax effects of items reported in the income statement		**(7,543)**		**496**

18. INCOME TAX (continued)

18.3. Komercijalna banka a.d., Banja Luka

18.3.1. Components of income taxes as of December 31 were as follows:

	In RSD '000 For the year ended on December 31 2016	**2015**
Tax expenses	(12,921)	(21,384)
	(12,921)	**(21,384)**

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

	2016	**2016**	**2015**	**2015**
(Loss) / Profit before tax		**38,821**		**(129,975)**
Tax calculated at the local income tax rate of 10%	10.00%	3,882	10.00%	(12,998)
Tax losses carried forward from previous period	-	-	-	-
Tax deductible expenses	46.73%	18,140	-21.66%	28,153
The effects of the recognized deferred tax income	-17.35%	(6,735)	-	7,446
Income tax – free	-6.09%	(2,365)	0.94%	(1,218)
Effective tax	-33.28%	12,921	-16.45%	21,384
Tax effects of items reported in the income statement		**12,921**		**21,384**

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

	In RSD '000 For the year ended on December 31 2016	**2015**
Balance as at January 1	2,557	586
Occurrence and reversal of temporary differences	1,857	1,971
Balance as at December 31	**4,414**	**2,557**

18. INCOME TAX (continued)

18.4. KomBank INVEST Društvo za upravljanje investicionim fondom a.d., Beograd

18.4.1. Components of income taxes as of December 31 were as follows:

In RSD '000

	For the year ended on December 31 2016	2015
Tax expense	(854)	(142)
Deferred income tax benefits	-	-
Deferred income tax expense	-	(5)
	(854)	**(147)**

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

In RSD '000

	For the year ended on December 31 2016	2015
Profit before tax	28,045	3,495
Income tax at the statutory tax rate of 15%	4,207	524
Tax effect of expenses deductible for tax purposes	-	10
The tax effects of net capital gains	854	142
Tax effects of differences of depreciation for tax purposes and accounting depreciation	41	37
Tax effects of losses for tax purposes	(411)	(1,542)
Correction of tax effects (effect of used and new)	(4,691)	829
Other	854	147
Tax effects of items reported in the income statement	**(854)**	**147**
Effective tax rate	**3.05**	**4.21**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

		In RSD '000
	December 31 2016	**December 31 2015**
In RSD		
Cash on hand	3,327,335	2,910,101
Gyro account	20,295,030	20,884,697
Interest on obligatory RSD reserves	-	5,000,000
Other RSD cash funds	100	100
	23,622,465	**28,794,898**
In foreign currencies		
Cash on hand	3,883,053	4,608,208
Foreign currency obligatory reserves	33,125,275	35,225,371
Other cash funds	1,288,309	266,741
	38,296,637	40,100,320
Total	**61,919,102**	**68,895,218**
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (Note 23.1)	10,867,916	9,996,838
Foreign currency obligatory reserves	(32,125,275)	(35,225,371)
Deposited surplus liquid assets	-	(5,000,000)
	(22,257,359)	**(30,228,533)**
Cash and cash equivalents reported in statement of cash flows	**39,661,743**	**38,666,685**

In the statement of cash flows the Group reports on the cash funds held on the gyro account held with NBS, 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.

<u>The Parent Bank</u>

In the statement of cash flows the Bank reports on the cash funds held on the gyro account held with NBS, 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.

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0.0% to 5.00%, depending on the maturity of liabilities and their sources, whereby RSD reserve is comprised of: obligatory RSD reserves, 38.00% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 30.00% of RSD equivalent of obligatory reserves in EUR to deposits over 730 days (Official gazette of RS, no. 135/2014).

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

The Parent Bank (continued)

The National Bank of Serbia pays interest on these RSD reserves in the amount of 1.75% per annum starting from November 18th 2015.

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.

Persuant to the Decision on Amendments to the Decision on Obligatory Reserves held with NBS dated as of December 11, 2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied (previously 22%)
- for foreign currency deposits placed for over 730 days the rate of 13% was applied (previously 15%)
- for RSD deposits indexed with currency clause the rate of 100% was applied (previously 50%) regardless of the period of placement

The Bank does not earn interest on mandatory reserves in foreign currency. During 2016 and in accordance with Decision on obligatory reserves held with Central bank, the Bank allocated a portion of its foreign currency reserve to its gyro account.

Other foreign currency cush funds of RSD 23 thousand (2015: RSD 6,075 thousand) entirely relate to the clearing account held with the Central Securities Registry, Depository and Clearing House for trade in securities.

Komercijalna banka a.d., Budva

The obligatory reserves of the Bank as at December 31, 2016 represent the minimum deposits allocated in accordance with the regulations of the Central bank of Montenegro on which the "Decision on Banks' Obligatory Reserves with the Central bank of Montenegro" ("Official Gazette of Montenegro", No. 73/15, 3/16 and 78/15) refer to. Accordingly, the Bank calculates the obligatory reserves on demand deposits and time deposits.

Deposit accounts at depository institutions in Montenegro relate to the obligatory reserves allocated at the rate of 9.5% on the part of the base consisting of demand deposits and deposits with agreed maturity up to one year or 365 days, and at the rate of 8.5% on the part of the base that consists of deposits with agreed maturity over one year, or over 365 days. On deposits with maturity over one year that have a clause on the possibility of cancellation of those deposits in less than 365 days, the rate of 9.5% is applied.

Resources available in order to maintain daily liquidity of the Bank amount to 50%.

As at December 31, 2016, the banks are allowed to withdraw 25% of obligatory reserves and keep them in the form of treasury bills issued by Montenegro. Central Bank pays them a monthly fee of 1% per annum on the amount representing a difference between 50% of the total funds allocated as obligatory reserves and the amount of funds allocated in the form of treasury bills, to maximum of 25% of allocated funds.

The Bank did not use the obligatory reserve funds in 2016.

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

Komercijalna banka a.d., Banja Luka

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

Obligatory reserves with the Central Bank of Bosnia and Herzegovina represent the minimum reserve of funds in local currency calculated in accordance with the Decision on obligatory reserves with the Central Bank of Bosnia and Herzegovina.

Starting from May 1st 2015, the Central Bank of Bosnia and Herzegovina charges a fee to banks as follows:

- On the amount of obligatory reserves - the average EONIA, which is recorded in the same period on the market decreased by 10 basis points or a minimum zero,
- On the amount higher than obligatory reserves - a zero rate of reimbursement.

Starting from July 1st 2016, the Central Bank of Bosnia and Herzegovina charges a fee to banks as follows:

- On the amount of obligatory reserves – a zero rate of reimbursement,
- On the amount higher than obligatory reserves – reimbursement is calculated at the rate of 50% of the rate applied by European Central Bank on commercial banks’ deposits (Deposit Facility Rat).

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

Financial assets held for trading comprise:

		In RSD ‘000
	December 31 2016	**December 31 2015**
Securities held for trading (in RSD)	247,862	803,543
Securities held for trading (in foreign currencies)	-	52,268
Total (Note 4.1.6)	**247,862**	**855,811**

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

Breakdown of financial assets held for trading is provided below:

In RSD '000

	December 31 2016 Total assets held for trading	December 31 2015 Total assets held for trading
Republic of Serbia bonds	-	183,121
Corporate shares	-	4,520
Bank shares	-	275
Investment units of OIF KomBank Devizni fond	4,942	4,755
Investment units of OIF Novčani fond	242,920	663,140
Total	**247,862**	**855,811**

Investment units as at December 31, 2016 in total amount of RSD 247, 862 thousand relate to investment units of KomBank Novčani fond, Beograd and OIF Devizni fond.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

In RSD '000

	December 31 2016	December 31 2015
Securities available for sale (in RSD)	43,826,167	42,487,488
Securities available for sale (in foreign currencies)	96,063,753	89,426,001
Total (Note 4.1.6 and 3.1)	**139,889,920**	**131,913,489**
Impairments	(81,710)	(370)
Total	**139,808,210**	**131,913,119**

Financial assets available for sale

Securities available for sale (in RSD) as at December 31, 2016 relate to Republic of Serbia treasury bills in the amount of RSD 9,407,495 thousand (2015: RSD 11,669,519 thousand), Republic of Serbia bonds in the amount of RSD 33,905,659 thousand (2015: RSD 29,948,565 thousand), bonds from the City of Pančevo and Municipalities Stara Pazova and Šabac in the amount of RSD 431,302 thousand (2015: RSD 452,692 thousand), bonds of the company Tigar a.d., Pirot in the amount of RSD 81,710 thousand (2015: RSD 79,442 thousand).

Of the total amount of impairment allowance, RSD 81,710 thousand (2015: RSD 336 thousand) relates to the bonds of the company Tigar a.d., Pirot.

21. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Financial assets available for sale **(continued)**

Securities available for sale in foreign currencies as at December 31, 2016 relate to Republic of Serbia treasury bills in the amount of RSD 4,786,597 thousand (2015: RSD 11,854,135 thousand), long-term Government of the Republic of Serbia bonds in the amount of RSD 86,592,932 thousand (2015: RSD 72,238,381 thousand); Government of the Montenegro bonds in the amount of RSD 2,038,226 thousand (2015: RSD 329,343 thousand), Government of the Republic of Srpska in the amount of RSD 827,069 thousand (2015: RSD 202,307 thousand) and foreign bank bonds - Raiffeisen Bank International in the amount of RSD 1,818,930 thousand (2015: RSD 2,017,859 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 2016**	**In RSD '000 December 31 2015**
Individual impairment allowance		
Balance at January 1st	370	494
Current year impairment allowance:		
Increase (Note 14)	81,230	618
Exchange rate effects (Note 14)	115	6
Items not included over the year (Note 14)	(5)	(748)
Total individual impairment allowance	**81,710**	**370**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise*:*

	December 31 2016	**In RSD '000 December 31 2015**
Securities helt to maturity (in RSD)	84,169	206,975
Securities helt to maturity (in foreign currency)	368,999	-
Impairment allowance	(84,169)	(97,669)
Total (Note 4.1.6)	**368,999**	**109,306**

22. FINANCIAL ASSETS HELD TO MATURITY (continued)

Impairment allowance of securities held to maturity

In RSD '000

	December 31 2016	December 31 2015
Individual impairment allowance		
Balance as at January 1st	(2,715)	18,415
Current year impairment allowance:		
Increase (Note 14)	-	1,097
Reclassified from the individual to the group	-	-
Items not included (Note 14)	-	(22,227)
Write-offs	(5,500)	-
Other	-	-
Total individual impairment allowance	**(8,215)**	**(2,715)**
Group impairment allowance		
Balance as at January 1st	100,384	101,514
Current year impairment allowance:		
Increase (Note 14)	936	7,350
Reclassified from the individual to the group	-	-
Items not included (Note 14)	(936)	(7,350
Write-offs	(8,000)	(1,130)
Other	-	-
Total group impairment allowance	**92,384**	**100,384**
Total group and individual impairment allowance	**84,169**	**97,669**

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

23.1 Loans and receivables due from banks include:

In RSD '000

	December 31 2016	December 31 2015
RSD loans and receivables		
Per repo transactions	20,000,000	1,200,000
Loans for working capital	3,000,000	100,000
Overnight loans	1,000,000	500,000
Other receivables	14,580	8,686
Prepayments	22,199	14,885
Impairment allowance	-	(105,463)
	24,036,779	**1,718,108**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	10,867,916	9,996,838
Overnight loans	585,677	1,279,338
Other loans and receivables due from foreign banks	772,678	615,076
Foreign currency deposits placed with other banks	6,204,867	3,519,438
Prepayments	710	12
Other receivables	9,184	16,485
Secured foreign currency warranties	1,050,864	998,037
Impairment allowance	(311,994)	(294,435)
	19,179,902	**16,130,789**
	43,216,681	**17,848,897**

As of December 31, 2016 securities acquired through "reverse" repo transactions with the National Bank of Serbia amounting to RSD 20,000,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rate from 2.54% to 3.09%.

Short-term RSD deposits due from banks were deposited for a period of a year at interest rates ranging from 2.55 % to 3.30% per annum.

Short-term foreign currency deposits due from banks were deposited for a period of a year at interest rates ranging from 0.10% to 0.30% annually for EUR deposits, from 0.15% to 0.5% for USD and from 0.02% to 0.80 for CHF. Interest rates applied to the long-term revolving loans approved to subsidiary banks ranged between 2.568% and 2.738% and for long term revolving loans between 2.557% and 2.710%.

23. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

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

Individual impairment allowance	**2016**	**2015**
Balance as at January 1st	399,760	368,589
Current year impairment allowance:		
Increase (Note 14)	-	20
Exchange rate effects (Note 14)	15,577	31,171
Write-offs	(105,463)	-
Items not included (Note 14)	-	(20)
Total individual impairment allowance	**309,874**	**399,760**

Group impairment allowance	**2016**	**2015**
Balance as at January 1st	138	274
Current year impairment allowance:		
Increase (Note 14)	4,051	423
Exchange rate effects (Note 14)	8	-
Write-offs	-	-
Items not included (Note 14)	(2,077)	(559)
Total group impairment allowance	**2,120**	**138**
Balance as at December 31	**311,994**	**399,898**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

In RSD '000

	2016			2015		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	599,731	(77,830)	521,901	587,564	(187,201)	400,363
Working capital loans	47,892,654	(8,143,530)	39,749,124	46,406,682	(10,411,164)	35,995,518
Export loans	2,171,791	(2,039,330)	132,461	2,275,456	(1,525,569)	749,887
Investment loans	30,263,822	(4,018,372)	26,245,450	28,203,014	(3,348,405)	24,854,609
Purchased loans and receivables - factoring	298,788	(807)	297,981	217,372	(12,412)	204,960
Loans for payments of imported goods and services	2,306,016	(2,097,996)	208,020	5,372,720	(4,365,328)	1,007,392
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	507,877	(325,392)	182,485	2,135,297	(1,478,571)	656,726
Other loans and receivables	43,592,100	(11,901,963)	31,690,137	64,657,506	(13,660,713)	50,996,793
Prepayments	225,863	(127,098)	98,765	581,182	(205)	580,977
Accruals	(226,002)	-	(226,002)	(265,283)	-	(265,283)
	127,632,640	**(28,732,318)**	**98,900,322**	**150,171,510**	**(34,989,568)**	**115,181,942**
Retail customers						
Transaction account overdrafts	4,035,694	(709,744)	3,325,950	4,171,154	(707,611)	3,463,543
Housing loans	42,521,786	(1,113,184)	41,408,602	41,486,329	(942,474)	40,543,855
Cash loans	21,559,287	(1,030,537)	20,528,750	18,473,635	(1,022,547)	17,451,088
Consumer loans	408,830	(47,905)	360,925	530,350	(52,406)	477,944
Other loans and receivables	2,713,060	(453,876)	2,259,184	2,970,103	(415,030)	2,555,073
Prepayments	216,355	(3,038)	213,317	211,985	(3,834)	208,151
Accruals	(596,042)	-	(596,042)	(458,940)	-	(458,940)
	70,858,970	**(3,358,284)**	**67,500,686**	**67,384,616**	**(3,143,902)**	**64,240,714**
Balance as at December 31	**198,491,610**	**(32,090,602)**	**166,401,008**	**217,556,126**	**(38,133,470)**	**179,422,656**

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:

In RSD '000

	December 31 2016	December 31 2015
Individual impairment allowance		
Balance as at January 1	**35,918,535**	**11,550,585**
Current year impairment allowance:		
Charge for the year (note 14)	11,692,716	14,412,207
Reclassified from group to individual impairment allowance	(2,731,965)	13,383,852
Effects of the changes in foreign exchange rates (note 14)	120,287	(6,548)
Reversal (note 14)	(3,360,826)	(3,449,310)
Written off	(11,816,533)	-
Off- balance sheet items	-	-
Previous years interest income	-	-
Other (Note 14)	98,773	27,749
Total individual impairment allowance	**29,920,987**	**35,918,535**
Group impairment allowance		
Balance as at January 1	2,214,935	13,018,407
Current year impairment allowance:		
Charge for the year	10,923,432	8,621,567
Reclassified from group to individual impairment allowance	2,731,965	(13,383,852)
Effects of the changes in foreign exchange rates(note 14)	362,704	143,535
Reversal (note 14)	(7,570,216)	(6,761,221)
Written off (note 14)	(7,095,673)	(3,383)
Other (note 14)	602,468	579,882
	2,169,615	**2,214,935**
Balance as at December 31	**32,090,602**	**38,133,470**

24.3 Loans and receivables due from retail customers

Short-term RSD and foreign currency loans were approved for periods from 30 days to one year, an interest rates ranging between 2.50% and 17.5% per annum.

Long-term RSD and foreign currency loans were approved for periods from 13 to the maximum of 30 years, at interest rates ranging between 2.50% and 13.95%.

Loans and receivables due from legal entities

Short-term RSD loans were approved for periods up to one year, at interest rates ranging between 0.3% and 1.0% per month. On the other hand, short-term foreign currency loans were approved for periods to one year, at interest rates ranging between 0.125% and 0.65% per month (EUR).

Long-term RSD loans were approved for periods from 18 to 24 months, at interest rates ranging between 1.5% and 6.25% per annum. Finally, long-term foreign currency loans were approved for periods up to 96 months, at interest rates ranging between 1.5% and 11.9% per annum (EUR).

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

24.3 Loans and receivables due from retail customers (continued)

Risks and Uncertainties

The Group's 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, the Group's 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's management are unsuccessful, additional amounts of allowances for impairment and provisions for losses based on the assessed irrecoverability would be required in the forthcoming reporting periods.

25. INTANGIBLE ASSETS

25.1 Intangible assets comprise:

		In RSD '000
	December 31 2016	December 31 2015
Intangible assets	391,983	240,641
Intangible assets in progress	2,563	11,307
Total	**394,546**	**251,948**

25. INTANGIBLE ASSETS (continued)

25.2 Movements on the account of intangible assets in 2015 and 2016 are presented below:

In RSD '000

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
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)	-
Disposals	(182)	-	(182)
FX adjustments	1,385	18	1,403
Balance as at December 31, 2015	**1,868,107**	**11,307**	**1,879,414**
Balance at January 1, 2016	1,868,107	11,307	1,879,414
Additions	5,146	361,425	366,571
Transfers	370,234	(370,234)	-
Disposals	-	-	-
FX adjustments	3,790	65	3,855
Balance as at December 31, 2016	**2,247,277**	**2,563**	**2,249,840**
Depreciation			
Balance at January 1, 2015	1,358,560	-	1,358,560
Depreciation (Note 16)	267,854	-	267,854
Disposals	(182)		(182)
FX adjustments	1,234	-	1,234
Balance as at December 31, 2015	**1,627,466**	**-**	**1,627,466**
Balance at January 1, 2016	1,627,466	-	1,627,466
Depreciation (Note 16)	224,443	-	224,443
Disposals	-	-	-
FX adjustments	3,385	-	3,385
Balance as at December 31, 2016	**1,855,294**	**-**	**1,855,294**
Net Book Value			
Balance at January 1, 2015	**431,007**	**20,198**	**451,205**
Balance as at December 31, 2015	**240,641**	**11,307**	**251,948**
Balance as at December 31, 2016	**391,983**	**2,563**	**394,546**

26. PROPERTY, PLANT AND EQUIPMENT

26.1 Property, plant and equipment comprise:

In RSD '000

	December 31 2016	December 31 2015
Property	5,548,211	5,568,744
Equipment	652,080	774,603
Investments in progress	50,896	48,660
Total	**6,251,187**	**6,392,007**

Bank has engaged independent appraisers that have, in total, appraised 82 properties, 69 of which are used in business purposes while the remaining 13 are investment properties.

Non-current assets held for sale and properties acquired in lieu of debt collection have not been appraised, since they are valued according to IFRS 5 and Bank's internal guide book, at least once a year. Their fair value is decreased annually according to independent reputable appraiser.

Effects of the conducted appraisals of the assets owned by the Parent Bank:

Based on the Report of the independent appraisers, total negative effect amounted to RSD 538,690 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at RSD 597,270 thousand and
- Net increase in the revaluation reserves at 58,580 thousand as follows:

Accumulated effects of property appraisals			
Appraisal	**Increase/Decrease**	**Effect**	
		Income statement	**Balance sheet**
Increase in value	**(746,955)**	**(629,685)**	**(117,270)**
- Property, plant and equipment	(509,838)	(392,568)	(117,270)
- Investment properties	(237,117)	(237,117)	-
Increase in value	**208,265**	**32,415**	**175,850**
- Property, plant and equipment	208,265	32,415	175,850
Total:	**(538,690)**	**597,270**	**58,580**

In the process of adjustment to the carrying value of property for use for business purposes with their fair value, increase is made in the revaluation reserve in equity, and reduces the income statement or the revaluation reserves if they are formed in previous years for the asset.

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.1 Property, plant and equipment (continued)

Effects of the conducted appraisals of the assets owned by Komercijalna banka a.d., Budva:

Based on the Report of the independent appraisers, total negative effect amounted to EUR 121,671.99 or RSD 15,023 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at EUR 121,671.99 (RSD 15,023 thousand) and
- Net increase in the revaluation reserves at EUR 970,183.14 (RSD 119,791 thousand) as follows:

In RSD '000

Accumulated effects of property appraisals			
Appraisal	Increase/Decrease	Effect	
		Income statement	Balance sheet
Decrease in value	(15,023)	(15,023)	-
- Property, plant and equipment	(15,023)	(15,023)	-
Increase in value	119,791	-	119,791
- Property, plant and equipment	119,791		119,791
TOTAL:	**104,768**	**(15,023)**	**119,791**

Effects of the conducted appraisals of the assets owned by Komercijalna banka a.d., Banja Luka:

Based on the Report of the independent appraisers, total negative effect amounted to KM 236,037.09 or RSD 14,901 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at KM 236,037.09 or RSD 14,901 thousand.

In RSD '000

Accumulated effects of property appraisals			
Appraisal	Increase/Decrease	Effect	
		Income statement	Balance sheet
Decrease in value	14,901	(14,901)	-
- Property, plant and equipment	-	-	-
- Investment properties	14,901	(14,901)	-
Increase in value	-	-	-
- Property, plant and equipment	-	-	-
- Investment properties	-	-	-
TOTAL:	**14,901**	**(14,901)**	**-**

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.2 Movements on property, plant and equipment during 2016 and 2015 were as follows:

In RSD ‘000

	Property	Equipment	Investment in Progress	Total
Cost				
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 27.1)	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)
FX adjustments	1,465	2,919	28	4,412
Balance at December 31, 2015	**7,357,922**	**3,798,783**	**48,660**	**11,205,365**
Balance at January 1, 2016	7,357,922	3,798,783	48,660	11,205,365
Additions	13,925	7,028	381,725	402,678
Transfers from investment in progress	67,693	133,855	(201,548)	-
Transfers on investment in progress (Note 27.1)	-	-	(79,470)	(79,470)
Transfers from investment properties	339,823	-	-	339,823
Transfers on assets held for sale (Note 30)	(77,669)	-	(98,550)	(176,219)
Transfers from assets acquired through collection of receivables	103,579	-	-	(103,579)
Disposals and retirements	(11,037)	(42,065)	-	(53,102)
Sale	-	(2,446)	-	(2,446)
Appraisal increase	490,255	-	-	490,255
Appraisal decrease	(661,708)	-	-	(661,708)
FX adjustments	4,073	8,060	79	12,212
Balance at December 31, 2016	**7,626,856**	**3,903,215**	**50,896**	**11,580,967**
Depreciation				
Balance at January 1, 2015	1,627,059	2,798,749	-	4,425,808
Depreciation (Note 16)	180,079	362,768	-	542,847
Disposals and retirements	(16,213)	(115,932)	-	(132,145)
Sale	(2,204)	(24,109)	-	(26,313)
Other	(71)	-		(71)
FX adjustments	528	2,704	-	3,232
Balance at December 31, 2015	**1,789,178**	**3,024,180**	**-**	**4,813,358**
Balance at January 1, 2016	1,789,178	3,024,180	-	4,813,358
Depreciation (Note 16)	180,169	263,330	-	449,499
Transfers from investment properties (Note 27.1)	68,698	-	-	68,698
Transfers on assets held for sale	(48,397)	-	-	(48,397)
Transfers from assets acquired through collection of receivables	65,161	-		65,161
Disposals and retirements	(8,959)	(41,176)	-	(50,135)
Sale	-	(2,256)	-	(2,256)
Appraisal revaluation increase	162,200	-	-	162,200
Appraisal revaluation decrease	(136,847)	-	-	(136,847)
FX adjustments	1,442	7,057	-	8,499
Balance at December 31, 2016	**2,078,645**	**3,251,135**	**-**	**5,329,780**
Net book value				
Balance at January 1, 2015	**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**
Balance at December 31, 2016	**5,548,211**	**652,080**	**50,896**	**6,251,187**

The Group members have no buildings under mortgage in order to secure repayment of the loans.

Due to the incomplete land registers as at 31 December 2016, the Parent Bank for 34 buildings of total net carrying value of RSD 555.855 thousand has no proof of ownership (the number of objects includes assets acquired in lieu of debt collection). The Parent Bank's management is taking all the necessary measures to obtain title deeds.

During 2016, the Group members wrote-off permanently unusable fixed assets total net carrying value RSD 2,967 thousand.

During 2016 the Bank sold the equipment of net carrying value of RSD 190 thousand.

27. INVESTMENT PROPERTY

27.1 Movements on the account of investment property in 2016 and 2015 are presented below:

	In RSD '000 Total
Cost	
Balance at January 1, 2015	2,946,807
Transfer from investments in progress (Note 26.2)	259,908
Transfer from assets held for sale	27,008
Sale	(2,783)
Appraisal – decrease (Note 17)	(42,798)
FX adjustments	651
Balance at December 31, 2015	**3,188,793**
Balance at January 1, 2016	3,188,793
Transfer from investments in progress (Note 26.2)	79,470
Transfer to property, plant and equipment	(339,823)
Transfer from assets held for sale	145,516
Transfers from assets acquired through collection of receivables	361,681
Sale	(60,757)
Appraisal – decrease (Note 17)	(269,621)
FX adjustments	2,487
Balance at December 31, 2016	**3,107,746**
Depreciation	
Balance at January 1, 2015	235,594
Depreciation (Note 16)	55,286
Sale	(1,178)
Appraisal – decrease (Note 17)	(877)
FX adjustments	47
Balance at December 31, 2015	**288,872**
Balance at January 1, 2016	288,872
Depreciation (Note 16)	55,784
Transfer to property, plant and equipment	(68,698)
Transfers from assets acquired through collection of receivables	242,839
Sale	(1,628)
Appraisal – decrease (Note 17)	(17,603)
FX adjustments	129
Balance at December 31, 2016	**499,695**
Net book value	
Balance at January 1, 2015	**2,711,213**
Balance at December 31, 2015	**2,899,921**
Balance at December 31, 2016	**2,608,051**

27. INVESTMENT PROPERTY (continued)

Investment property information per Group member are presented below:

27.2.1 The Parent Bank

On 31 December 2016, the Parent Bank has reported investment property in the amount of RSD 2,217,816 thousand, consisting of facilities leased. On the basis of contracts concluded on a long-term lease, in 2016 the Bank has transferred from the investment property to the fixed assets for business purposes a part of a property in the Makedonska Street 29 in the amount of RSD 382.811 thousand.

During 2016, based on a valuation of certified external appraiser, the Parent Bank has performed impairment allowance of investment property in the amount of 237.117 thousand.

Also, during 2016, the Bank has sold the office space at Resavska 29, and on that basis made a decline in the present value of investment property of RSD 44,568 thousand.

Appraisal of real estate investment:

Property	Area in m^2	Book value before the appraisal in 000 RSD	Appraisal value		Difference in 000 RSD
			in 000 EUR	in 000 RSD	
Belgrade, Trg politike 1	3,354	809,997	6,560	701,408	(108,589)
Negotin, Save Dragovića 20-22	658	40,174	326	32,498	(7,676)
Lovćenac, Maršala Tita bb,	46,890	163,968	1,328	158,168	(5,800)
Niš, Bulevar 12. februar bb	816	16,930	137	16,714	(216)
Novi Sad, Vardarska 1/B	291	46,998	381	29,139	(17,859)
Novi Sad, Bulevar Oslobođenja 88, 3 premises	367	150,935	1,222	53,958	(96,977)
Total		**1,229,002**		**991,885**	**(237,117)**

27.2.2 As of December 31, 2016 the negative net result realized from investment property amounted to RSD 25,938 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Result
Belgrade, Trg politike 1	3,354	(21,456)	8,783	(12,673)
Niš, Vrtište nova d-zgrada	1,816	(2,358)	2,114	(244)
Niš, TPC Kalča	85	(803)	4,387	3,584
Beograd, Omladinskih brigada 19	15,218	(15,285)	2,540	(12,745)
Šabac, Majur, Obilazni put bb	1,263	(1,037)	293	(744)
Lovćenac, Maršala Tita bb,	46,890	(3,833)	2,462	(1,371)
Negotin, Save Dragovića 20-22	658	(922)	122	(800)
Niš, Bulevar 12. february bb	816	(282)	75	(207)
Beograd, Radnička 22	7,190	(16,295)	17,979	1,684
Beograd, Beogradska 39	460	(3,095)	777	(2,318)
Novi Sad, Vardarska 1/B,	291	(1,849)	1,893	44
Novi Sad, Bulevar Oslobođenja 88, 3 premises	367	(2,341)	2,748	407
Kotor, business premises, zgr.br.1 *	207	(555)	-	(555)
Beograd, Luke Vojvodića 77a*	80	-	-	-
		(70,111)	**44,173**	**(25,938)**

*business premises in Kotor and Belgrade have been recognized as investment properties as of December 31, 2016.

27. INVESTMENT PROPERTY (continued)

27.3.1 Komercijalna banka a.d., Banja Luka

On 31 December 2016, the Bank has reported investment property in the amount of RSD 271,393 thousand (2015: RSD 155,895 thousand), which make the objects leased.

On the basis of the agreement on long-term lease, the Bank has in 2016 carried out the transfer of real estate from the investment properties to the fixed assets held for sale (business-catering facility located in Nova Topola and land by the business-catering facility located in Nova Topola) in the amount of RSD 145,516 thousand.

In 2016, the Bank sold the office building- warehouse and related land in Tišća, Municipality Šekovići, and on that basis made an impairment in investment properties in the amount of RSD 14,561 thousand. The total selling price of property was RSD 13,636 thousand. There has been a loss on sales in the amount of RSD 922 thousand.

Appraisal of the investment properties owned by the Komercijalna banka a.d., Banja Luka:

a) Estimated value of investment properties where the estimated value was lower than the net book value:

Property	Area in m2	Book value before appraisal in RSD '000 динара	Appraisal value In EUR	Appraisal value In RSD '000	Value differences in RSD '000
Business premises: Bescarinska zona Distrikt Brčko – Zona industrije i rada	1,024	51,603	362,713	44,785	(6,818)
Business building: Bescarinska zona Distrikt Brčko – Zona industrije i rada	873	16,277	107,604	13,286	(2,991)
Land – Bescarinska zona Distrikt Brčko – Zona industrije i rada	1,958	9,182	68,530	8,462	(720)
Land -Bescarinska zona Distrikt Brčko - Zona industrije i rada	2,763	12,934	82,890	10,235	(2,699)
Land -Bescarinska zona Distrikt Brčko - Zona industrije i rada	2,476	9,509	74,280	9,172	(337)
Land in Novoj Topoli	6,514	12,764	96,000	11,853	(910)
	1,709	127,973			
Business- hospitality premises – Nova Topola;	7,437	16,791	1,169,000	144,339	(426)
Total		**257,032**	**1,961,017**	**242,131**	**(14,901)**

27. INVESTMENT PROPERTY (continued)

27.3.1 Komercijalna banka a.d., Banja Luka (continued)

b) Estimated value of investment properties where the estimated value was higher than the net book value:

Property	Area in m2	Book value in RSD '000	Appraisal value: In EUR	Appraisal value: In RSD '000	Value differences in RSD '000
Business building: Bescarinska zona Distrikt Brčko	949 м^2	29,606	242,983	30,002	396
TOTAL:		**29,606**	**242,983**	**30,002**	**396**

The Bank has not recognized an increase in value of the property on the basis of the assessment made.

On 31 December 2016, the net result from investment properties amounts to RSD 1,595 thousand:

In RSD '000

Property	Area in m²	Total expenses	Total revenues from lease	Net result
Brčko, Bescarinska zona bb	7,197	(2,302)	3,099	797
Nova Topola, land	5,767	-	378	378
Tišća - opština Šekovići, New warehouse	1,870	(1,103)	245	(858)
Actros motel-picerija Nova Topola	5,437	(949)	2,226	1,277
		(4,354)	**5,948**	**1,594**

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

In RSD '000

	31 December 2016	31 December 2015
NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS	349,523	170,667
	349,523	**170,667**

28. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (continued)

a) PARENT BANK'S NON-CURRENT ASSETS HELD FOR SALE

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	580
Požarevac, M.Pijade 2, business premises	790.82	30,050
Požarevac, M.Pijade 2, business premises	880.86	24,865
Belgrade, Toše Jovanovića 7, business premises	24.05	2,089
Vrbas, M. Tita 49, business premises	145.56	3,767
Kotor, business premises 1 and 2	690.00	98,550
Jastrebac, resort building	687.00	21,206
Jastebac, country house	108.00	1,729
Jastrebac, generator storage	65.00	334
		183,170

During 2016, one property (a flat in Krusevac) has been sold, which consequently led to a reduction in non-current assets held for sale by RSD 6,004 thousand net carrying value. The flat was sold for RSD 6,237 thousand.

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

During 2016, based on the certified independent appraiser, value of non-current assets held for sale has been decreased by RSD 1,963 thousand (note 17).

b) NON-CURRENT ASSETS HELD FOR SALE, Komercijalna banka a.d., Banja Luka:

Property	Area in m^2	Carrying Value
Business space Posušje	1,289.00	25,636
Business building and land,Kočićevo, Gradiška	5,333.50	20,948
Family building, Prijedor	505.65	6,683
Business building and land, Mrkonjić grad	2,619.00	15,202
Business building and land, Hadžići	775.00	20,539
Business building and land, Prijedor	7,043.00	64,961
Business building and land, Rovine, Gradiška	961	5,492
Equipment		6,892
		166,353

In 2016, there was not made sales of fixed assets held for sale - objects. During 2016, based on a valuation of certified external appraiser, the impairment of the value of fixed assets held for sale was made in the amount of RSD 6,182 thousand. According to internal documents of the Bank, reducing of the value of fixed assets held for sale amounting to RSD 6,861 thousand was made. Total impairment of fixed assets intended for sale during 2016 amounted to RSD 13,043 thousand. The Bank's management still has the intention to conduct the sale of all assets that have not been sold in the past year.

29. OTHER ASSETS

Other assets comprise:

	December 31, 2016	In RSD thousand December 31, 2015
In RSD		
Fee receivables per other assets	94,293	132,319
Inventories	144,858	192,934
Assets acquired in lieu of debt collection	4,923,560	5,252,588
Prepaid expenses	100,430	145,942
Equity investments	1,380,921	1,375,966
Other RSD receivables	2,940,037	2,565,815
	9,584,099	**9,665,564**
Impairment allowance of:		
Fee receivables per other assets	(44,608)	(68,028)
Assets acquired in lieu of debt collection	(2,003,398)	(1,450,810)
Equity investments	(503,761)	(448,581)
Other RSD receivables	(875,893)	(596,944)
	(3,427,660)	**(2,564,363)**
In foreign currencies		
Fee receivables per other assets	77	-
Other receivables from operations	466,583	404,501
Receivables in settlement	872,143	298,821
Other foreign currency receivables	34,599	73,133
	1,373,402	**776,455**
Impairment allowance of		
Other receivables from operations	(193,464)	(135,724)
Receivables in settlement	(81,221)	(80,003)
	(274,685)	**(215,727)**
Total	**7,255,156**	**7,661,929**

On the basis of regular yearly inventory count, parent bank has written off inventories worth 22 thousand RSD as expense of a period.

Movements of other assets and prepayments impairment allowance is shown in the following table:

Individual impairment allowance	**December 31, 2016.**	**In RSD thousand December 31, 2015.**
Balance as of January 1	718,902	310,559
Impairment allowance in current year		
Charge for the year (note 14)	878,707	519,951
Foreign currency exchange effects (note 14)	13,473	5,106
Reversal (note 14)	(5,599)	(116,714)
Written off	(62,482)	-
Other	(307,270)	-
Total Individual impairment allowance	**1,235,731**	**718,902**

29. OTHER ASSETS (continued)

Group impairment allowance

In RSD thousand

	December 31, 2016.	December 31, 2015.
Balance as of January 1	1,920,152	1,312,657
Impairment allowance in current year		
Charge for the year (note 14)	744,384	721,508
Foreign currency exchange effects (note 14)	2,875	3,102
Reversal (note 14)	(181,572)	(93,344)
Written off	(52,356)	(284)
Other	(92,803)	(23,487)
Total Group impairment allowance	**2,340,680**	**1,920,152**
Balance as of December 31 (excluding small inventory)	**3,576,411**	**2,639,054**
Inventory impairment allowance (not exposed to credit risk)	125,934	141,036
Balance as of December 31 (including small inventory)	**3,702,345**	**2,780,090**

a) Equity investments

Other assets also comprise equity investments and are shown in the following table:

	2016.	2015.
Equity investments in banks and other financial organizations	82,536	143,467
Equity investments in companies and other legal entities	468,277	455,922
Equity investments in non-resident entities abroad	830,108	776,577
	1,380,921	**1,375,966**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(81,863)	(26,683)
Equity investments in companies and other legal entities	(421,898)	(421,898)
	(503,761)	**(448,581)**

Equity investments in banks and other financial organizations relate to: Euroaxis bank a.d., Moskva in the amount of RSD 78,387 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,266 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. oktobar a.d., Kruševac in the amount of RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Belgrade Stock Exchange in the amount of RSD 2,246 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 66,042 thousand and Politika a.d., Beograd in the amount of RSD 31,246 thousand.

29. OTHER ASSETS (continued)

a) Equity investments (continued)

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 683,882 thousand, MASTER Card in the amount of RSD 145,856 thousand and Montenegro Stock exchange Podgorica RSD 370 thousand.

Impairment allowance of equity investments totaling RSD 503,761 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, Euroaxis bank a.d., Moskva in the amount of RSD 78,387 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.

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling RSD 864,220 thousand, receivables which relate to material values acquired in lieu of debt collection, advances paid for working capital assets of RSD 18,779 thousand, rental receivables of RSD 372,270 thousand and interest receivables per other assets of RSD 219,069 thousand and receivables from operations per court verdict totaling RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling RSD 868,544 thousand for the most part pertain to receivables for spot transactions of RSD 756,435 thousand.

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection

Material values in lieu of debt collection totaling RSD 4,923,560 thousand, less recorded impairment allowance of RSD 2,003,398 thousand, with the net carrying value of RSD 2,920,162 thousand relate to members of the group:

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

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
I.C.P Kruševac, commercial building	12,836	47,174	08.06.2012.
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,784	24.07.2012.
Majur, Tabanovačka, category 4 arable field	14,452	1,634	10.08.2012.
Mladenovac, category 3 arable field	16,633	268	25,06.2012.
Obrenovac, Mislođin, arable field	10,017	1,054	11.07.2012.
Gnjilica, category 7 arable field	2,638	113	15.04.2008.
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	104,705	21.01.2009.
Residential building, Čačak, at Ratka Mitrovića 6	195	2,357	12.05.2009.
Novi Pazar, Kej skopskih žrtava 44, premises	82.95	2,840	27.09.2006.
Tivat, Mrčevac – residential building, auxiliarry facilities in construction and garage	277	5,202	23.12.2009.
Tutin, Buče category 4 forest	8,292	331	12.10.2010.
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	321	27.09.2012.
Budva, category 4 forest	974	4,023	27.05.2011.
Prijevor, category 4 forest	1,995	4,732	27.05.2011.
Residential building Galathea	925.35	244,494	21.11.2011.
Prijepolje, Karoševina, saw mill	450	1,063	08.11.2013.
Ćuprija, Alekse Šantića 2/24, apartment	72.40	872	15.01.2013.
Niš, Ivana Milutinovića 30, business premises	438.39	5,298	23.04.2013.
Niš, Triglavska 3/1, apartment	79.80	3,406	04.06.2013.
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	25,790	09.07.2013.
Mladenovac, field, category 3 forest	1,142	494	18.07.2013.
Niš, Bulevar 12. februara, warehouse- ancillary facility	2,062	42,088	30.07.2013.
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	23,663	01.10.2013.
Total I		**525,706**	

***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*

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
Kotor, business premises, property 1	106	24,891	22.12.2016.
Kotor, business premises, property 2	345	81,014	22.12.2016.
Kotor, business premises, property 3	345	81,014	22.12.2016.
Total II		**186,919**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

III *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*

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
Valjevo, village Radjevo, warehouse	394	455	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,450	573	16.05.2014.
Bor, Nikole Pašića 21, production plant and warehouse	3,823	61,916	08.05.2014.
Subotica, Magnetna 17, production plant, warehouse	2,492	48,007	18.07.2014.
Reževići, Montenegro, karst, category 5 forest	1,363.20	19,954	22.07.2014.
Reževići, Montenegro, category 5 forest	5,638.54	82,528	22.07.2014.
Bajina Bašta, Vojvode Mišića 72/1, family house	110.25	2,643	01.08.2014.
Mokra Gora, house, fields	58,400	4,289	31.01.2014.
Kopaonik, house and yard	337	4,235	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,122	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,737	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,768	31.01.2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,660	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,199	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	28,152	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	31,485	31.01.2014.
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	9,013	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	5,106	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	4,980	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	25,720	31.01.2014.
Zrenjanin, Novosadski put 4, building with land	9,144	36,157	14.08.2014.
Niš, Ivana Gorana Kovačića 31, residential building	434.58	4,692	17.04.2013.
Mladenovac, category 3 and 4 arable fields	7,768	254	03.10.2014.
Bela Crkva, forest	4,187	84	03.10.2014.
Mladenovac, arable fields and orchards	25,136	539	03.10.2014.
Niš, Čajnička bb, residential building	825.74	11,158	14.03.2013.
Niš,Sjenička 1, business premises and warehouse	1,452.73	13,738	14.03.2013.
Valjevo, Vojvode Mišića 170, residential building	106	1,777	25.09.2014.
Beograd, Resavska 31, building	3,411	370,417	03.06.2014.
Zemun, Cara Dušana 130, production plants	6,876	104,334	16.06.2014.
Valjevo, Radnička 6, flat	69	2,888	28.05.2015.
Niš, Šumadijska 1, business premises	504.60	1,879	04.12.2014.
Mionica, Andre Savčić 8, family house	107	1,806	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	291	11.06.2012.
Sokobanja, production plant with land	5,042	24,561	31.07.2012.
Sokobanja, portirnica with land	2,005	706	31.07.2012.
Sokobanja, building with land	4,194	9,304	31.07.2012.
Sokobanja, arable land and category 4 orchard	417,908	15,082	31.07.2012.
Beograd, B.Pivljanina 83, residential building	278.52	65,233	23.08.2012.
Prokuplje, category 3 arable field	12,347	774	28.08.2015.
Divčibare, category 5 field	8,012	4,270	02.12.2015.
Lebane, Branka Radičevića 17, residential-business building	768.42	5,927	27.08.2015.
Loznica, Lipnica, residential-business building with land	146	2,149	15.10.2015.
Vrh polje, zgrada ugostiteljstva with land	1,334	2,456	16.05.2013.
Kruševac, St.selo, concrete base with land	100,560	141,143	11.03.2016.
Zrenjanin, Bagijaš, category 2 pasture	230	49	22.12.2015.
Reževići, Montenegro, karst, category 5 forest	10,462	33,893	26.02.2016.
Reževići, Montenegro, category 5 forest	8,866.39	15,211	23.12.2015.
Bajina Bašta, Vojvode Mišića 72/1, family house	1,225	12,444	05.05.2016.
Mokra Gora, house, fields	29,550	232	31.03.2016.
Kopaonik, house and yard	20,599	360	19.05.2016.
Total II		**1,232,350**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

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

In RSD thousand

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	9,643	08.06.2012.
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	12,816	31.07.2012.
Paraćin, coffee roasting line	3,822	31.12.2012.
Vranić, equipment, production line	5,135	09.07.2013.
Total IV	**31,416**	

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*

In RSD thousand

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	4,786	03.06.2015.
Equipment, supply of secondary raw materials	1,812	18.07.2014.
Movables, installation materials	799	13.05.2014.
Movable assets	18	08.12.2015.
Other	370	
Total V	**7,784**	
TOTAL (Net carrying value) I + II+ III+ IV+V	**1,984,175**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

During 2016, the Bank sold one property, in Resavska 29, net carrying value shown in the material values acquired in lieu debt collection of RSD 288,314 thousand. Part of this property was accounted as Investment property, RSD 44,568 thousand. Total net carrying value of the property was RSD 332,882 thousand, and it was sold for RSD 326,688 thousand.

Furthermore, during 2016 the Bank sold eight properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 139,261 thousand (three flats in Novi Beograd, house in Novi Pazar, land in Novi Pazar, Nis, Tutin and Rezevici). The total sales price of the aforesaid properties amounted to RSD 145,294 thousand.

Bank has engaged independent appraisers that have appraised non-current material values acquired in lieu of debt collection, acquired prior the period of twelve months.

In RSD 000

Effects of property impairment	377,012
Effects of equipment impairment	50,087
TOTAL	**427,099**

Total negative effect amounted to RSD 427,099 thousand and it was recognized as expense of a period as follows (note 14):

- For properties RSD 354,760 thousand based on lower appraisal market value and RSD 20,237 thousand according to internal act due to Bank’s inability to sell the property in the period shorter than 12 months, even though the appraisal value is higher than book value, and finally RSD 2,015 thousand according to internal Bank’s decision
- For equipment RSD 50,040 thousand based on lower appraisal market value and RSD 47 thousand according to internal decision.

29. OTHER ASSETS (Continued)

в) Material values acquired in lieu of debt collection (continued)

G1.1 Appraisal value of properties acquired in lieu debt collection

Property	Area in м2	Book value before the appraisal	Appraisal value In EUR thousand	Appraisal value Net carrying value in RSD	Difference in value
Beograd, Resavska 31, building	3,411	564,467	3,000	370,417	(194,050)
Čačak, Hotel „Prezident“, Bulevar oslobođenja BB	2,278.92	110,921	848	104,705	(6,216)
Novi Sad, Bulevar oslobođenja 88, busines premises 22	226	31,258	228	28,152	(3,106)
Novi Sad, Bulevar oslobođenja 88, busines premises 23	253	39,285	255	31,485	(7,800)
Zemun, Cara Dušana 130, production complex	6,876	206,764	845	104,334	(102,430)
Niš, Ivana Gorana Kovačića 31, flat	434,58	4,830	38	4,692	(138)
Reževići, Crna Gora, a karst and a forest	1363.33	24,262	162	19,954	(4,308)
Reževići, Crna Gora, category 5 forest	5,638.80	85,821	668	82,528	(3,293)
Novi Pazar, Kej Skopskih žrtava 44, premises	82,95	3,019	23	2,840	(179)
Vranić, Milijane Matić 2, business premises with land	10,584.24	26,758	209	25,790	(968)
Lebane, Branka Krsmanovića 17, residential commercial building	768,42	6,246	48	5,927	(319)
Novi Sad, Tihomira Ostojića 4, business premises 7	134	9,661	73	9,013	(648)
Mokra Gora, fields and a house	58,400	7,275	35	4,289	(2,986)
Novi Sad, Polgar Andraša 40/a, business premises 9	81	7,825	41	5,106	(2,719)
Novi Sad, Polgar Andraša 40/a, business premises 10	79	7,632	40	4,980	(2,652)
Kopaonik, house with land	408	44,637	208	25,720	(18,917)
Beograd, Mihaila Avramovića 14a, residential building	337	8,212	34	4,235	(3,977)
Kruševac, Koševi bb, production-commercial building	925.35	252,316	2,100	244,494	(7,822)
Subotica, Magnetna 17, production plant and a warehouse	12,836	48,683	420	47,174	(1,509)
Beograd, Baje Pivljanina 83, commercial building	2,492	49,542	482	48,007	(1,535)
Bor, Nikole Pašića 21, buildings, a warehouse and a production plant	278,52	67,320	584	65,233	(2,087)
Zrenjanin, Bagljaš, Novosadski put 4, buildings, a pump and land	3,823	63,896	570	61,916	(1,980)
Novi Sad, Bulevar oslobođenja 30a, 5 business premises	9,374	37,364	431	36,207	(1,157)
Sinex, production plant, land and an orchard	181	20,109	164	19,486	(623)
Kula, Železnička bb, business premises with land	429,419	51,009	749	49,653	(1,356)
Niš, Čajnička, residential building	7,959	24,420	243	23,663	(757)
Niš, Sjenička, commercial building, warehouses and a workshop	825.74	11,515	176	11,158	(357)
Niš. Šumadijska 1, business premises	1,452.73	14,178	200	13,738	(440)
Niš, Ivana Milutinovića 30, business premises	504.60	1,939	70	1,879	(60)
Niš, Triglavska 3, a flat	438.69	5,468	56	5,298	(170)
Valjevo, Radnička 6, a flat	79.8	3,515	36	3,406	(109)
Čačak, Ratka Mitrovića 6, a house	69	2,981	35	2,888	(93)
Mionica, Andre Savčića 8, a house	195	2,433	20	2,357	(76)
Majur, Tabanovačka, category 4 arable field	107	1,863	28	1,805	(58)
Divčibare, category 5 field	14,452	1,656	23	1,634	(22)
Obrenovac, Mislođin, category 3 arable field	8,012	4,326	97	4,270	(56)
Prokuplje, Oblačina, category 3 and 4 arable fields	5,320	1,068	24	1,054	(14)
Bela Crkva, Kajtasovo, a forest	12,347	784	29	774	(10)
Other (70 properties)	4,187	85	1	84	(1)
Novi Sad, Polgar Andraša 40/a, business premises 9	-	71,838	-	69,824	(2,014)
TOTAL		**1,927,181**		**1,550,169**	**(377,012)**

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

G1.2 Appraisal value of equipment acquired in lieu debt collection

In 000 RS

Description	**Book value before the appraisal**	**Net carrying value in RSD**	**Difference in value**
Movables	1,766	854	(912)
Equipment, inventory and secondary raw materials	2,338	1,812	(526)
Other	80,161	31,512	(48,649)
TOTAL	**84,265**	**34,178**	**(50,087)**

For two buildings and a car worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

Komercijalna banka ad, Budva

Tangible assets acquired through collection of receivables in the past 12 months:

In RSD thousand

Description	**Area in м^2**	**Value**	**Acquisition Date**
Petrovac – commercial place	173	28,769	29.07.2016.
Total I		**28,769**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

Tangible assets acquired through collection of receivables in previous period:

Description	Area in м^2	Value in RSD 000	Acquisition Date
Danilovgrad – buildings (190 м²) and land (13,205 м²)	13,395	3,729	09.10.2007.
Podgorica – house with a store (381 м²) and land (329 м²)	710	20,219	31.12.2008.
Sutomore – hotel (970 м²) and land (620 м²)	1,590	98,901	31.01.2009.
Kotor Pobrdje – non-urbanized plot	31,534	55,563	28.02.2009.
Budva – forest	709	15,619	31.03.2009.
Rezevici – residential buildings	139	19,539	30.06.2009.
Podgorica – pasture	375	2,432	31.08.2009.
Andrejevica – land (12,942 м²) and production facility for wood processing (3 buildings of total 1,259 м² and building in energy. 32 м²)	14,233	11,051	31.10.2009.
Danilovgrad – residential buildings (709 м²), yard (500 м²) and land (16,544 м²)	17,753	32,163	30.11.2009.
Petrovac – residential buildings (252 м²), business premises (40 м²) и land (811 м²)	1,103	12,697	17.12.2009.
Rezevici – land	547	6,966	17.12.2009.
Podgorica – Dajbabe – Business premises (2,370 м²) and land (8,879 м²)	11,249	91,370	28.12.2009.
Подгорица – business premises	497	32,597	27.01.2010.
Cetinje – garage (30 м²) и land (374 м²)	404	1,563	25.05.2010.
Podgorica – Tolosi – residential building (394 м²) и land (61 м²)	455	1,951	31.07.2010.
Podgorica – Tolosi – residential building (500 м²) и yard (195 м²)	695	35,159	31.07.2010.
Kotor – Vranovici – forests and meadow	3,131	2,911	01.08.2010.
Budva – residential building	50	10,620	17.08.2010.
Danilovgrad – Spuz – residential buildings (228 м²) and land (1,364 м²)	1,592	4,725	31.10.2011.
Kotor – land	3,632	5,765	30.11.2011.
Podgorica – building and a hotel (661 м²) and land (264 м²)	925	59,649	31.12.2011.
Rijeka Crnojevica – residential buildings (3,309 м²) and land (43,436 м²)	46,745	99,395	30.06.2012.
Niksic – meadow и unclassified roads (284 м²) and meadow IV class (693 м²)	977	1,296	28.02.2013.
Bar – land (1,322 м²), house (150 м²) and two ancillary buildings (20 м² и 15 м²)	1,507	4,128	28.02.2013.
Niksic – residential buildings	65	2,655	30.08.2013.
Podgorica – land (502 м² и кућа 157 м²)	659	1,591	01.08.2013.
Herceg Novi – urbanized plot	300	2,346	04.11.2013.
Podgorica – urbanized plot	1,684	13,977	16.01.2014.
Budva – Perezica Do – land (4,734м²), Business premises 164 м², three garages each 14 м², four apartments (144 м², 74 м², 89 м² и 68 м²)	5,315	87,727	25.01.2014.
Budva – Buljarice land Buljarice (8,953 м²) и business premises (838 м²)	9,791	61,242	25.01.2014.
Risan – urbanized plots	425	4,322	14.04.2014.
Kotor – land (271 м²), two family residential buildings (60 м² и 36 м²) and auxiliary building (29 м²)	396	3,210	12.08.2014.
Bar – forests, fields and pastures	12,501	10,574	10.12.2014.
Podgorica – land (302 м²) and building under construction (110 м²)	412	5,277	22.12.2014.
Bar – forests	3,569	59,699	29.12.2014.
Bar – business premises (224 м² и 161 м²)	385	24,593	24.03.2015.
Total II		**907,219**	
TOTAL KB Budva (present value) I+II		**935,988**	

For 31 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not accrued entry into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2016, amounts to 936.044 thousand (EUR 7,581 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 482.168 thousand.

Estimated value of property acquired through collection of receivables:

Name of the property	Area in м^2	Book value before revaluation In RSD thousand	Estimated value In EUR thousand	Estimated value In RSD thousand	Value difference in RSD thousand
Land and business premises in Budva	7,121	174,077	832	102,729	(71,348)
Land, business premises, 3 garages and 4 apartments – Perazica Do	5,315	235,368	711	87,727	(147,641)
Land and business premises - Buljarice - Budva	9,791	119,379	496	61,242	(58,137)
2 business premises Stari Aerodrom Podgorica	97	16,051	55	6,751	(9,300)
Land and business premises Rijeka Crnojevica	50,108	135,820	805	99,395	(36,425)
Land and auxilary building Tolosi Podgorica	849	3,686	16	1,951	(1,735)
House and yard Tolosi Podgorica	883	41,469	285	35,159	(6,310)
Forests Sutomore Bar	3,569	84,085	484	59,699	(24,386)
Other (32 facilities)	-	643,023	4.180	516,137	(126,886)
TOTAL		**1,452,958**	**7,864**	**970,790**	**(482,168)**

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

Deposits and other liabilities due to banks and other financial institutions comprise:

In RSD thousand

	December 31, 2016.	December 31, 2015.
Demand deposits	2,403,693	2,542,288
Term deposits	2,304,355	2,549,287
Borrowings	5,140,505	13,774,098
Expenses deferred at the effective interest rate (deductible item)	(45,031)	(111,736)
Other	18,997	14,789
Balance as at December 31	**9,822,519**	**18,768,726**

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

During 2016 foreign currency term deposits placed by banks were deposited at interest rate of 0.01% for CHF and 0.00 to EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

Breakdown of long-term borrowings included in aforementioned line “Borrowings” is shown as follows:

In RSD thousand

	December 31, 2016.	**December 31, 2015.**
EFSE	-	5,203,165
GGF	406,224	1,199,233
FMO	-	2,027,102
IFC	-	1,824,391
EBRD	4,586,114	3,301,280
Balance at December 31	**4,992,338**	**13,555,171**

Pursuant to the loan agreements executed with the creditors listed in the table above, the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained. As of December 31, 2016, the Bank was in full compliance with all the contractually defined financial ratios toward the aforelisted foreign creditors.

During 2016, the Parent Bank has repayed a line of credit due to EBRD of RSD 17,143 thousand and made an agreement for a new one, of EUR 30,000 thousand. This line of credit has better credit terms, however, it resulted in total increase in borrowings of RSD 1,284,834 thousand.

Also, during 2016 with new line of credit arrangements with EFSE, FMO and IFC, the Bank has managed to prematurely repay principal of RSD 9,054,658 thousand.

30. 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 Liabilities due to banks:

		In RSD thousand
	December 31, 2016.	**December 31, 2015.**
EFSE	148,167	218,927
The Investment-development Bank	-	-
Balance as at December 31	**148,167**	**218,927**

The maturities of long-term loans due to EFSE fund is in the period from 2016 to 2021.

Based on the agreement concluded with EFSE fund Komercijalna banka a.d. Banja Luka is obliged to meet certain financial ratios. On 31 December 2016, all agreed financial indicators were within acceptable limits.

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

		In RSD thousand
	December 31, 2016.	**December 31, 2015.**
Corporate customers		
Demand deposits	83,299,184	53,486,089
Overnight and other deposits	-	43,530
Borrowings	12,169,858	15,932,112
Earmarked deposits	9,384,129	13,077,761
Deposits for loans approved	966,862	7,412,678
Interest payable, accrued interest liabilities and other financial liabilities	755,794	858,852
	536,041	784,503
Retail customers		
Demand deposits		
Savings deposits	27,799,770	23,317,440
Earmarked deposits	33,055	67,426
Deposits for loans approved	202,047,051	196,568,930
Interest payable, accrued interest liabilities and other financial liabilities	4,059,360	2,790,869
Other deposits	2,163,128	1,797,519
	1,425,880	2,482,037
	495,847	714,876
Balance at December 31	**345,135,959**	**319,334,622**

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2016, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

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

In 2016 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 from 3 to 14 days to key policy rate less 2.05 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.00% and 3.10% annually.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 1.85 to 1.70 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.4% to 5.0%.

Retail Customer Deposits

Demand RSD savings deposits of retail customers were placed at the annual interest rate of 0.15%. Foreign currency demand deposits were placed at the annual interest rate of 0.01% and 0.05% for EUR, and 0.10% and 0.05% for other currencies.

In 2016 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 2.00% to 4.5 % annually and those in foreign currencies at rates from 0.05% to 1.9% annually for EUR and from 0.05% to 2.9% annually for other currencies.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 4.75% to 5.00% annually and those in foreign currencies at rates from 0.75% to 4.8% annually for EUR and from 0.75% to 2.90% annually for other currencies.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities which, for the purpose of compiling the balance sheet, are regarded as customers.

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

Breakdown of long-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

	December 31, 2016.	December 31, 2015.
		In RSD thousand
LEDIB 1 and 2 (Kingdom of Denmark)	18,660	39,696
Republic of Italy Government	374,774	649,398
European Investment Bank (EIB)	5,426,479	5,852,951
European Agency for Reconstruction (EAR)	194,465	280,630
KfW	2,020,456	4,865,044
Balance at December 31	**8,034,834**	**11,687,719**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2028.

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

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

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

	December 31, 2016.	December 31, 2015.
		In RSD thousand
European Investment Bank (EIB)	403,490	495,192
Government of Montenegro - Project 1000+	111,887	55,482
Development Fund of Montenegro	69,167	25,500
Balance at December 31	**584,544**	**576,174**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2031.

Komercijalna Banka a.d. Budva is not obligated to meet any financial ratios due to abovementioned loans.

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

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

In RSD thousand

	December 31, 2016.	December 31, 2015.
Investment-Development Bank	764,751	813,868
Balance at December 31	**764,751**	**813,868**

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

Pursuant to the loan agreements with The Republic of Srpska Investment-Development Bank, Komercijalna banka a.d. Banja Luka is not obligated to meet any financial ratios.

32. SUBORDINATED LIABILITIES

In RSD thousand

	December 31, 2016.	December 31, 2015.
Foreign currency subordinated liabilities	6,173,615	6,081,305
Other liabilities (accrued interest liabilities)	13,212	13,532
Expenses deferred at the effective interest rate (deductible item)	(8,437)	(16,875)
Balance at December 31	**6,178,390**	**6,077,962**

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 Bank enhanced its core capital by obtaining a subordinated loan from the International Finance Corporation (IFC). The subordinated loan received totaled RSD 6,173,615 thousand, i.e., EUR 50,000 thousand. Loan has been approved by International Finance Corporation with the maturity date December 15, 2017.

33. PROVISIONS

Provisions relate to:

	December 31, 2016.	December 31, 2015.
	In RSD thousand	
Provisions for off-balance sheet items (Note 14)	493,492	575,406
Provisions for litigations (Note 36.4)	1,042,094	1,204,790
Provisions for employee benefits in accordance with IAS 19	485,921	432,532
Balance at December 31	**2,021,507**	**2,212,728**

Movements on the accounts of provisions are provided below:

	2016.				2015.			
	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 36.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off-Balance Sheet Items	Provisions for Litigations	Provisions for Employee Benefits (IAS 19)	Totall
Balance January 1	575,406	1,204,790	432,532	2,212,728	600,829	774,055	357,185	1,732,069
Increase	701,750	488,424	80,943	1,271,117	647,438	444,400	41,634	1,133,472
Provisions against actuarial gains within equity	-	-	2,347	2,347	-	-	39,843	39,843
Release	-	(650,605)	(515)	(651,120)	-	(13,725)	(6,422)	(20,147)
Reversal of provision	(784,280)	(1,020)	(30,219)	(815,519)	(673,059)	-	-	(673,059)
Other	616	505	833	1,954	198	60	292	550
Balance at December 31	**493,492**	**1,042,094**	**485,921**	**2,021,507**	**575,406**	**1,204,790**	**432,532**	**2,212,728**

a) Provisions for litigations of Parent Bank

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs.

Major items relate to:

- Provisions for arrangements with Intereksport ad, Beograd (in bankruptcy) - by letter of credit from 1991 in the amount of RSD 368,221 thousand.

The subject of the dispute has been split into two separate cases before the court - a complaint because of the settlement of obligations Intereksport ad, Beograd (bankrupt) by the Republic of Serbia as follows:

The Republic of Serbia, in the amount of USD 4,773 thousand for the principal (and USD 1,132 thousand for interest payments until the time of payment). Litigation was paid on October 10, 2016, and the amount of the provision is reduced to zero.

Based on the instructions of the Ministry of Finance of the Republic of Serbia on October 10, 2016, the Bank effected a payment of USD 7,030 thousand and 638 thousand for the costs of the dispute (USD 4,773 thousand for principal and USD 2,257 thousand of interest expense). The bank made the payment as a release in provision in the amount of RSD 649.538 thousand and the difference of RSD 125,567 thousand recognized as expense of the current period. The total amount of payments was RSD 775,105 thousand.

33. PROVISIONS (continued)

a) Provisions for litigations of Parent Bank (continued)

Upon payment, provision still contained amount for a part of the dispute towards to Intereksport ad Belgrade (in bankruptcy) in the amount of USD 1,946 thousand for the principal and USD 1,047 thousand for interest. As of December 31, 2016. The RSD equivalent for the mentioned provision is RSD 368,221 thousand.

- The Privatization Agency (Case Vektra M doo, Beograd) in the amount of RSD 226,536 thousand for interest.

Additional information about the litigation with the Privatization Agency (Case Vektra M doo, Beograd):

On the proposal of the Agency for privatization of 15 May 2015 the Commercial Court in Belgrade on 20 May 2015 issued an enforcement Iv 3750/15, which made the Bank liable to pay the amount of RSD 196,523 thousand with interest of July 4 2007 until the date of payment as well as the costs of the proceedings.

The subject of the dispute is the guarantee for good business performance in the amount of EUR 2,471 thousand issued based on the Agreement on the sale of social capital DP Zupa, concluded on January 13 2004 between the Agency for Privatization of the Republic of Serbia and the Company " Vektra M " doo, Beograd.

The Bank has received decision on execution on 25 May 2015 and upon completion of the objection to the decision the subject is transferred to the litigation.

The Bank has made a provision under the guarantee (Increases in provisions for off-balance sheet) in the amount of RSD 260,686 thousand. Accrued interest from the dispute as of December 31, 2016 in the amount of RSD 226,356 thousand was recognized in the provision for litigation.

- Provision for legal dispute initiated by individual on the basis of unjust enrichement and retention of net dividends was made in total amount of RSD 163,756 thousand.

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments. The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2016.	December 31, 2015.
Parent Bank		
Discount rate	5.00%	5.25%
Salary growth rate within the Bank	5.00%	2.00%
Employee turnover	4.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

33. PROVISIONS (continued)

b) Provisions for employee benefits (continued)

Komercijalna Banka a.d., Budva

Discount rate	4.00%	5.00%
Salary growth rate within the Bank	4.50%	2.00%
Employee turnover	6.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

Discount rate	5.00%	5.00%
Salary growth rate within the Bank	1.00%	2.00%
Employee turnover	3.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

Discount rate	5.00%	5.25%
Salary growth rate within the Bank	7.00%	2.00%
Employee turnover	5.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

34. OTHER LIABILITIES

Other liabilities include:

		In RSD thousand
	December 31, 2016.	**December 31, 2015.**
Accounts payable	311,749	220,334
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	303,811	271,753
Advances received	66,815	54,372
Accrued interest, fees and commissions	122,932	107,971
Accrued liabilities and other accruals	462,269	243,589
Liabilities in settlement	2,028,191	1,307,290
Dividend payment liabilities	2,490,770	2,586,715
Taxes and contributions payable	97,306	69,667
Other liabilities	430,486	158,275
Balance as at December 31	**6,314,329**	**5,019,966**

Liabilities in settlement totaling RSD 2,028,191 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 864,306 thousand and foreign currency liabilities for spot transactions in the amount of RSD 752,996 thousand.

Liabilities from profit in the amount of RSD 2,490,770 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 56,467 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 1,934,065 thousand and
- liabilities from profit to employees in the amount of RSD 500.237 thousand.

With the Decision of the Bank 9520 / 3d of May 24, 2016, a part of prior year's retained earnings was distributed for dividends on preferred shares in the amount of RSD 23,531 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

During 2016, the Bank did not carry out payments based on the distribution of profits for 2014 and 2015 because of the abovementioned limitation.

35. EQUITY

35.1 Equity is comprised of:

In RSD '000

	December 31 2016	December 31 2015
Share capital	17,191,529	17,191,528
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	19,320,511	25,737,160
Revaluation reserves	6,439,985	5,688,871
Retained earnings	545,985	195,933
Loss for the period	(7,048,674)	(6,962,174)
Balance as at December 31	**59,292,420**	**64,694,402**

Capital structure — **In RSD '000**

	December 31, 2016			December 31, 2015		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	63	17,191,529	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**	**63**	**40,034,613**	**40,034,550**	**62**	**40,034,612**
Retained earnings	**545,985**	**-**	**545,985**	**195,933**	**-**	**195,933**
Loss for the period	**(7,048,674)**	**-**	**(7,048,674)**	**(6,962,172)**	**(2)**	**(6,962,174)**
Reserves from profit and other reserves	19,320,508	3	19,320,511	25,737,155	5	25,737,160
Revaluation reserves	4,579,456	-	4,579,456	4,118,999	-	4,118,999
Revaluation reserves (debit balance)	(67,159)	-	(67,159)	(270,108)	-	(270,108)
Translational reserves (Note 35.3)	1,927,688	-	1,927,688	1,839,980	-	1,839,980
Reserves	**25,760,493**	**3**	**25,760,496**	**31,426,026**	**5**	**31,426,031**
Capital	**59,292,354**	**66**	**59,292,420**	**64,694,337**	**65**	**64,694,402**

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 participate in profit distribution. As of December 31, 2016 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

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

Share Type	Number of shares December 31 2016	December 31 2015
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**

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2016 was as follows:

Shareholder	Number of shares	% share
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
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit bank, a.d., Srbija (*custody* account)	128,604	0.76
Stankom co. d.o.o., Beograd	117,535	0.70
UniCredit bank, a.d., Srbija	100,879	0.60
Evropa osiguranje a.d, Beograd in bancruptcy	86,625	0.52
UniCredit bank, a.d., Srbija	83,303	0.50
Others (1,184 shareholders)	1,337,058	7.51
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2016 was as follows:

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (614 shareholders)	270,280	72.37
	373,510	**100.00**

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

Revaluation reserves totaling RSD 6,439,985 thousand (2015: RSD 5,688,871 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,133,209 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,290,188 thousand, actuarial gains of RSD 88,900 thousand and translational reserves in the amount of RSD 1,927,688 thousand.

In 2016 prior years' dividends for 2013 on preferred shares were paid in the amount of RSD 196,477 thousand to shareholder IFC.

By the Decision of the Parent Bank number 9520/3c from May 24, 2016, loss from 2015 was covered in the amount of RSD 6,299,631 thousand as follows:

• part from the retained earnings in the amount of RSD 156.019 thousand and
• reserves from the Bank's profit for estimated losses on balance sheet assets in the amount of RSD 6,143,612 thousand.

In 2016 the Parent bank in 2016 did not carry out the payment of dividends from 2014 and 2015.

Total liabilities for dividends established by distribution of profit for 2014 and 2015 and earlier years is:

• RSD 56,467 thousand for preference shares
• RSD 1,934,065 thousand ordinary shares

On November 24 2014 preference shares were exchanged into ordinary shares with a rate of 6.29%.

The calculation for the payment of dividends on preference shares according to the Annual account for the year 2016 is based on the interest rate on savings deposits in RSD, deposited for a period of twelve months and amounts to RSD 16,808 thousand.

Correction of the prior year data - loss and reserves (relate to Note 3.1)

In accordance with the requirements of IAS 8, which was related to the allocation of effects of changes in methods of income from interest, discount and premium of securities available for sale, comparative data presented in 2015 were restated as follows: Interest income from investment securities in the amount of RSD 238,273 thousand. By the same amount total net operating income and loss before and after tax are corrected. Loss for the period after all corrections is RSD 6,061,358 thousand. Correction of revaluation reserves for 2015 is carried down in the amount of 1,143,039 thousand (relate to Note 3.1).

35. CAPITAL (continued)

35.2. Earnings (loss) per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2016	2015
Loss plus preferred dividend (adjusted prior column)	(8,079,990)	(6,084,889)
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings (loss) per share (in RSD)	**(480)**	**(362)**

Basic loss per share for the year 2016 amounts to RSD 480 or 48.04% of the nominal value of ordinary shares, while for 2015 adjusted loss per share was RSD 362, or 36.18% of the nominal value of the ordinary shares. The increase of earnings per share in 2016 compared to 2015 was caused by the reported loss of the Bank's current operations in the amount of RSD 8,377,636 thousand.

Decreased (diluted) loss per share for the year 2016 amounts to RSD 480 or 48.04% of the nominal value of ordinary shares, while the 2015 loss amounted to RSD 362 or 36.18% of the nominal value of the ordinary shares.

35.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX losses/gains on the basis of shares in subsidiaries (Note 25)	Cumulative FX losses/gains on the basis of intercompany transactions	Cumulative FX losses/gains on income adjustments to the FX rate as at December 31	Total (Note 35.1)
Balance as at January 1, 2015	**1,681,795**	**70,055**	**64,192**	**1,816,042**
Increase	38,768	(9,493)	(5,337)	23,938
Balance as at December 31, 2015	1,720,563	60,562	58,855	1,839,980
Increase	107,191	(16,262)	(3,221)	87,708
Balance as at December 31, 2016	**1,827,754**	**44,300**	**55,634**	**1,927,688**

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31 2016	December 31 2015
Operations on behalf and for the account of third parties	4,466,969	4,488,679
Taken-over future liabilities	35,025,089	30,505,938
Other off-balance sheet items	512,478,491	586,833,057
Total	**551,970,549**	**621,827,674**

36.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its 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:

In RSD '000

	December 31 2016	December 31 2015
Payment guarantees (Note 4.1.1.)	4,336,212	5,337,033
Performance guarantees (Note 4.1.1.)	6,950,946	6,756,946
Letters of credit	84,143	54,165
Guaranteed bills	-	-
Balance as at December 31	**11,371,301**	**12,148,144**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

36.2 The breakdown of commitments is provided below:

In RSD '000

	December 31 2016	December 31 2015
Unused portion of approved payment and credit card loan facilities and overdrafts	9,430,627	9,116,540
Irrevocable commitments for undrawn loans	12,232,330	8,473,442
Other irrevocable commitments	1,168,323	767,812
Other commitments per contracted value of securities	822,508	-
Balance as at December 31	**23,653,788**	**18,357,794**

Irrevocable commitments for undrawn loans include internal relationship based on unused loans granted to Komercijalna Banka AD Banja Luka in the amount of RSD 370,417 thousand. Undisbursed overdraft credit cards include internal relationship based on business cards of KomBank INVEST with Parent Bank in the amount of RSD 200 thousand.

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.3 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 amount to RSD 4,466,969 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,683,170 thousand and relate to the long-term housing loans extended to retail customers. Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 512,478,291 thousand, the Group, among other things, records collateral obtained in order to secure placements and receivables in the amount of RSD 257,788,827 thousand, nominal value of securities per custody operations performed for the account of its clients (RSD 61,574,024 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 138,794,904 thousand), repo investments in Treasury bills (RSD 20,000,000 thousand), old FX savings bonds and the amount of permanent written-off balance sheet items - loans and receivables transferring to the off – balance in the amount of RSD 18,879,642 thousand. 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 takes no credit risk in respect of managed funds.

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

36.4 Litigation

Based on the expert estimate made by the Legal Department and attorneys at law representing the Group members, the Group made provisions for potential litigation losses for all the legal suits filed against its members in 2016 in the total amount of RSD 1,042,094 thousand (Note 33).

As of December 31, 2016 contingent liabilities based on legal suits filed against the Group members amounted to RSD 2,113,496 thousand (for 385 cases). The Group members' management do not expect material losses in the future on this basis above the provision made.

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 168,691,636 thousand (for 881 cases with the largest individual claim amounts). The Group members' management anticipates favorable outcome of the most lawsuits.

36.5 Commitments for operating lease liabilities are provided below:

In RSD '000

	December 31 2016	December 31 2015
Commitments due within one year	506,941	516,997
Commitments due in the period from 1 to 5 years	1,121,854	1,179,547
Commitments due in the period longer than 5 years	156,006	136,232
Total	**1,784,801**	**1,832,776**

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.6 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are undergoing continuous changes and revisions. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Group members' management believes that tax liabilities recognized in the financial statements are fairly presented.

37. RELATED PARTY DISCLOSURES

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

Legal entities are treated as related parties if one legal entity has control over another legal entity or exercises significant influence over financial and business decisions of another entity. Related parties are also entities under joint control of the same parent entity. The Parent bank discloses the Group's related party relationships 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 parties transactions were carried out on commercial and market conditions.
Consolidated transactions with affiliated entities are presented in Note 6.1.

37. RELATED PARTY DISCLOSURES (continued)

37.1 Loans and receivables from related parties

	2016.			2015.		
Loans	**On-balance**	**Off-balance**	**Total**	**On-balance**	**Off-balance**	**Total**
Lasta d.o.o., Sombor	347	-	347	1,010	-	1,010
VIŠ trade d.o.o., Vršac	-	-	-	1,763	919	2,682
Advokat Ristić Saša, Kruševac	1	-	1	1	-	1
MEPLAST d.o.o., Kruševac	1	-	1	132	-	132
MENTA d.o.o., Niš	1	6,000	6,001	1	6,000	6,001
JOY M&M d.o.o., Beograd	-	-	-	1	-	1
GP Company doo	-	-	-	1	-	1
NOVA PEKARA doo UŽICE	1	-	1	1	-	1
ZLATIBORSKI KATUN BEOGRAD	1	-	1	-	-	-
Private individuals	460,580	67,428	528,008	87,565	17,140	104,705
Total	**460,932**	**73,428**	**534,360**	**90,475**	**24,059**	**114,534**

Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
Lasta d.o.o., Sombor	2,600	-	2.600	1,618	-	1,618
VIŠ trade d.o.o., Vršac	13	-	13	6	-	6
Advokat Ristić Saša Kruševac	2	-	2	1	-	1
MEPLAST d.o.o., Kruševac	733	-	733	1,240	-	1,240
MENTA d.o.o., Niš	1,237	-	1,237	516	-	516
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	-	-	12	-	12
Anfibija	-	-	-	4	-	4
JOY M&M d.o.o., Beograd	-	-	-	26	-	26
Nova pekara d.o.o., Užice	801	-	801	788	-	788
Vladan Perišić SR Elektron, Zrenjanin	21	-	21	22	-	22
Goran Damnjanović, MARVIN+AZAMIT KRUŠEVAC	7	-	7	12	-	12
MATO SZR UŽICE	-	-		1	-	1
MM Energo 2010 d.o.o., Užice	800	-	800	14	-	14
ZLATIBORSKI KATUN BEOGRAD	16	-	16	-	-	-
EBRD (Note 32)	-	4,586,114	4,586,114	-	3,301,280	3,301,280
International Finance Corporation (Note 32)	-	6,173,615	6,173,615	-	7,905,696	7,905,696
Private individuals	505,350	-	505,350	339,075	-	339,075
Total	**511,580**	**10,759,729**	**11,271,309**	**343,335**	**11,206,976**	**11,550,311**

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties

In thousand RSD

	2016.		
	Interests	Fees	Total
Income			
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	2	2
Lasta d.o.o., Sombor	61	188	249
VIŠ trade d.o.o., Vršac	14	10	24
Advokat Ristić Saša Kruševac	-	6	6
MEPLAST d.o.o., Kruševac	2	55	57
MENTA d.o.o., Niš	-	333	333
Nova pekara d.o.o., Užice	-	73	73
Goran Damnjanović MARVIN+AZAMIT, Kruševac	-	25	25
MM Energo 2010 d.o.o., Užice	-	28	28
Vladan Perišić SR Elektron, Zrenjanin	-	6	6
ZLATIBORSKI KATUN BEOGRAD	-	56	56
Private individuals	28,123	9,122	37,245
Total income	**28,200**	**9,904**	**38,104**
Expenses			
Lasta d.o.o., Sombor	2	-	2
EBRD	134,645	914	135,559
International Finance Corporation	374,220	35,354	409,574
MEPLAST d.o.o., Kruševac	1	-	1
MENTA d.o.o., Niš	1	-	1
Nova pekara d.o.o., Užice	1	-	1
MM Energo 2010 d.o.o., Užice	1	-	1
Private individuals	5,739	6,184	11,923
Total expenses	**514,610**	**42,452**	**557,062**
Net expenses	**(486,410)**	**(32,548)**	**(518,958)**

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties (continued)

	2015.		
	Interests	Fees	Total
Income			
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	1	1
Lasta d.o.o., Sombor	259	212	471
VIŠ trade d.o.o., Vršac	59	88	147
DESK d.o.o., Beograd	-	33	33
Advokat Ristić Saša Kruševac	-	6	6
MEPLAST d.o.o., Kruševac	43	46	89
MENTA d.o.o., Niš	-	308	308
MATO SZR UŽICE	-	6	6
JOY M&M d.o.o., Beograd	-	11	11
Nova pekara d.o.o., Užice	-	150	150
MM Energo 2010 d.o.o., Užice	-	3	3
Goran Damnjanović MARVIN+AZAMIT, Kruševac	-	19	19
Vladan Perišić SR Elektron, Zrenjanin	-	4	4
Singidunum University	-	1	1
EBRD	-	77	77
Private individuals	7,013	5,530	12,543
Total income	**7,374**	**6,495**	**13,869**
Expenses	**Interests**	**Fees**	**Total**
Lasta d.o.o., Sombor	7	37	44
VIŠ trade d.o.o., Vršac	-	63	63
MEPLAST d.o.o., Kruševac	5	-	5
MENTA d.o.o., Niš	5	-	5
EBRD	136,345	-	136,345
International Finance Corporation	371,601	585	372,186
Private individuals	6,967	4,636	11,603
Total expenses	**514,930**	**5,321**	**520,251**
Net expenses	**(507,556)**	**1,174**	**(506,382)**

37. RELATED PARTY DISCLOSURES (continued)

37.3 Gross and net remunerations paid to the members of the Group members's Executive Board, Board of Directors and Audit Committee were as follows:

In thousand RSD

	December 31, 2016	December 31, 2015
Gross remunerations		
Executive Board	**207,762**	**163,191**
Net remunerations		
Executive Board	**169,685**	**129,437**
Gross remunerations		
Board of Directors and Audit Committee	**46,455**	**49,700**
Net remunerations		
Board of Directors and Audit Committee	**29,263**	**33,113**

During 2016 there was a change in the Executive Board of the Parent bank and Executive Directors of Komercijalna banka a.d. Budva and Komercijalna banka a.d. Banja Luka, and on that basis the agreed fees for contract termination were paid. Since those fees had a treatment of earnings, this consequently influenced the increase in gross and net salaries.

The Group members approved loans to the members of their Executive Boards, Boards of Directors and Audit Committees in the total amount of RSD 44,508 thousand (2015: 130,200 thousand).

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDENDS

Unreconciled Outstanding Item Statements

Based on the performed regular annual inventory count at 31 December 2016, the Parent bank has unreconciled outstanding Item statements with 24 clients.

Unreconciled statements for 7 clients relate to clients who challenge the amount of receivables for advance payments, receivables arising from issued invoices, receivables from lease payments in total amount of RSD 15,186 thousand. These receivables were impaired in total amount.

For 4 clients unreconciled amounts are related to off-balance sheet items for irrevocable commitments for undrawn loans, challenge of the amount shown in the letter of intent, challenge of the balance to some guarantees on 31.12.2016 in total amount of 28,355 thousand RSD.

13 clients challenge a claim for compensation of domestic and international payment transactions, the due amount of the annuity, the manner of calculating default interest in total amount of RSD 2,113 thousand.

The amount of provisions for claims that are challenged (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The Parent bank is in the continuous process of reconciling the challenged items.

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDENDS (continued)

Unreconciled Outstanding Item Statements (continued)

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

Komercijalna banka a.d. Budva had 2 unreconciled statements in total amount of 148 thousand RSD.

Unrealized dividends

Unrealized dividends payable in 2016 amount to:

- Payable from 2014 RSD 1,934,065 thousand for preferred shares and 28,686 thousand for priority shares (Note 34.1).
- Contingent liabilities for the payment of priority dividends on the basis of the calculation for the year 2015 amounted to RSD 23,530 thousand (Note 35.1).

Contingent liabilities for the payment of priority dividends on the basis of calculation for the year 2016 amounted to RSD 16,808 thousand (Note 35.1).

39. EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period Concerning the Parent Bank:

In accordance with the judgment of the Supreme Court of Cassation Prev.no 275/2015 as of October 6, 2016 Bank's revision of litigation, which relates to repayment of the funds that have been removed from the Bank's account in favor of the client Intereksport - bankruptcy estate through enforced collection, was adopted (by the Decision on the execution of the Commercial Court in Belgrade I-166/15 of September 17, 2016), On February 24, 2017, the Bank received a payment of RSD 562.745 thousand. With the payment of the Bank's client Intereksport - bankruptcy estate Belgrade, the case has been settled since the client previously received amount of RSD 560.837 thousand. Difference represents court costs and fees in the amount of 1,907 thousand.

At the regular meeting of the Shareholders held on January 25, 2017. The decision was made on the sale of shares from the portfolio of the Bank in the following entities: Jubmes banka ad Beograd, Politika ad Beograd, Kompanija Dunav Osiguranje ado Beograd, Belgrade Stock Exchange and Trziste novca ad Beograd.

The Bank is in the process of electing a new member of the Executive Board responsible for the position of CFO (Chief Financial officer).

Events after the Reporting Period Concerning Komercijalna banka a.d.Budva:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by Komercijalna banka ad, Budva.

Events after the Reporting Period Concerning Komercijalna banka a.d. Banja Luka:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by Komercijalna banka ad, Banja Luka.

39. EVENTS AFTER THE REPORTING PERIOD (continued)

Events after the Reporting Period Concerning KomBank INVEST a.d. Beograd, Investment Fund Management Company:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by KomBank INVEST a.d., Beograd.

There were no other significant events after the date of the reporting period which would require adjustments or disclosures in the notes to the accompanying consolidated financial statements as of 31 December 2016.

40. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2016 and 2015 were as follows:

	NBS official exchange rate		NBS average exchange rate	
	2016.	2015.	2016.	2015.
USD	117.1353	111.2468	-	-
EUR	123.4723	121.6261	123.1015	120.7441
CHF	114.8473	112.5230	-	-
BAM	63.1304	62.1864	62.9408	61.7355

In Belgrade, on March 22, 2017

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

KOMERCIJALNA BANKA A.D., BEOGRAD

Consolidated Financial Statements Year Ended December 31, 2016 and Independent Auditors' Report

CONTENTS

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This is an English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Komercijalna banka a.d. Beograd and its subsidiaries (hereinafter: the Group), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 Standards on Auditing as applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PIB: 101824091 • Matični broj: 17155270 • Upisan i unet osnovni kapital: 15.075,01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 160-0000000399176-13 kod Banca Intesa a.d. Beograd

Building a better working world

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Group. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual consolidated financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual consolidated financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the consolidated financial statements of the Group for the year ended 31 December 2016.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those statements on 6 April 2016.

Belgrade, 23 March 2017

PREDUZEĆE ZA REVIZIJU
Ernst & Young
II
d.o.o. BEOGRAD

Jelena Čvorović

Stephen Fish
Ernst & Young d.o.o. Beograd

Jelena Čvorović
Authorised Auditor

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016.	2015. Restated *
Interest income	8	17,934,819	20,531,231
Interest expenses	8	(3,478,486)	(5,691,858)
Net interest income		**14,456,333**	**14,839,373**
Fee and commission income	9	6,643,289	6,391,393
Fee and commission expenses	9	(1,549,766)	(1,201,111)
Net fee and commission income		**5,093,523**	**5,190,282**
Net gains on the financial assets held for trading	10	76,323	4,264
Net gains on the financial assets available for sale	11	194,568	19,334
Net foreign exchange losses and negative currency clause effects Net gains on investments in associates and joint ventures	12	6,076	(6,366)
Other operating income	13	5,143	-
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	13	607,976	471,037
Net gains on the financial assets held for trading	14	(13,079,497)	(13,807,580)
Total operating income		**7,360,445**	**6,710,344**
Staff costs	15	(5,059,469)	(4,693,323)
Depreciation and amortization charge	16	(729,726)	(865,987)
Other expenses	17	(8,104,936)	(8,044,592)
(Loss)/Profit before taxes		**(6,533,686)**	**(6,893,558)**
Current income tax expense	18	(21,318)	(22,211)
Gains on created deferred tax assets and decrease in deferred tax liabilities	18	315,718	114,819
Losses decrease in deferred tax assets and created deferred tax liabilities	18	(1,844)	(108)
(Loss)/Profit for the year		**(6,241,130)**	**(6,801,058)**
Earnings per share			
Basic earnings per share	35.2	(0.480)	(0.362)
Diluted earnings per share	35.2	(0.480)	(0.362)

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

*Certain amounts shown here do not correspond to the 2015 consolidated financial statements and reflect adjustments made (refer to Note 3.1.)

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 22, 2017.

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

БЕОГРАД

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015 Restated *
(Loss)/Profit for the year		**(6,241,130)**	**(6,801,058)**
Other comprehensive income			
Increase in revaluation reserves in respect of intangible assets, property, plant and equipment	35	178.371	-
Decrease in revaluation reserves in respect of intangible assets, property, plant and equipment	35	-	(234)
Actuarial gains	34;35	1,665	-
Actuarial losses	34;35	(4,011)	(39,843)
Net increase from the fair value adjustment of financial assets available for sale	35.3	683,461	2,044,882
Unrealized losses on securities available for sale	35.3	(60,257)	(34,281)
Cumulative foreign exchange gains on translation of foreign operations	35	87,708	23,939
Gains from taxes related to the other comprehensive income	35	2,386	5,678
Losses from taxes related to the other comprehensive income	35	(116,050)	(300,593)
Other comprehensive income for the year, net of taxes		773,273	1,699,548
Total comprehensive income for the year		**(5,467,857)**	**5,101,510**

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These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 22, 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

БЕОГРАД

Alexander Picker
Executive Board Chairman

CONSOLIDATED BALANCE SHEET
As of December 31, 2016
(Thousands of RSD)

	Note	31.12.2016.	31.12.2015. restated	01.01.2015.
ASSETS				
Cash and cash funds held with the central bank	19	61,919,102	68,895,218	72,633,528
Financial assets at fair value through profit and loss, held for trading	20	247,862	855,811	121,634
Financial assets available for sale	21	139,808,210	131,913,119	98,958,788
Financial assets held to maturity	22	368,999	109,306	390,015
Loans and receivables due from banks and other financial institutions	23	43,216,681	17,848,897	35,733,988
Loans and receivables due from customers	24	166,401,008	179,422,656	203,828,648
Intangible assets	25	394,546	251,948	451,205
Property, plant and equipment	26	6,251187	6,392,007	6,605,496
Investment property	27	2,608,051	2,899,921	2,711,213
Current tax assets	18	7,283	40,079	79,572
Deferred tax assets	18	-	-	5
Non-current assets held for sale and assets from discontinued operations	28	349,523	170,667	137,802
Other Assets	29	7,255,156	7,661,929	9,050,215
TOTAL ASSETS		**428,827,608**	**416,461,558**	**430,702,109**
LIABILITIES AND EQUITY	30	9,822,519	18,768,726	26,274,764
Deposits and other liabilities due to banks, other financial institutions and the central bank	31	345,135,959	319,334,622	321,094,208
Deposits and other liabilities due to customers	32	6,178,390	6,077,962	6,036,680
Provisions	33	2,021,507	2,212,728	1,732,069
Current tax liabilities	18	9,027	11,905	14,726
Deferred tax liabilities	18	53,457	341,247	160,991
Other liabilities	34	6,314,329	5,019,966	3,314,942
TOTAL LIABILITIES		**369,535,188**	**351,767,156**	**358,601,380**
Equity				
Issued (share) capital	35	40,034,550	40,034,550	40,034,550
Profit	35	545,985	195,933	6,925,972
Loss	35	7,048,674	6,962,172	-
Reserves	35	25,760,493	31,426,026	25,140,140
Non-controlling interests	35	66	65	67
Total equity attributable to the majority owners of the bank		**59,292,420**	**64,694,402**	**72,100,729**
TOTAL LIABILITIES AND EQUITY		**428,827,608**	**416,461,558**	**430,702,109**

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

*Certain amounts shown here do not correspond to the 2015 consolidated financila statements and reflect adjustments made (refer to Note 3.1.)

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 22, 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2016 to December 31, 2016
(Thousands of RSD)

	Issued Capita(Note 35)	Share Premium (Note 35)	Reserves from Profit and Other Reserve(Note 35)	Revaluation reserves (Note 35)	Retained Earnings/ Accumulated Losses (Note 35)	Total attibutable to equity holders of the parent (Note 35)	Non controlling interest (Note 35)	Total (Note 35)
Balance at January 1, 2016	17,191,466	22,843,084	25,737,155	5,688,871	(6,766,239)	64,694,337	65	64,694,402
Loss for the year	-	-	-	-	(6,241,130)	(6,241,131)	1	(6,241,130)
Other comprehensive income for the year, net of income tax								
Decrease in revaluation reserves from property, plant and equipment	-	-	-	178,371	-	178,371	-	178,371
Net increase based on the change in the fair value of securities available-for-sale and foreign exchange difference on intercompany transactions	-	-	-	710,912	-	710,912	-	710,912
Actuarial gains/(losses)	-	-	-	(2,346)	-	(2,346)	-	(2,346)
Tax effects on other comprehensive income	-	-	-	(113,664)	-	(113,664)	-	(113,664)
Other comprehensive income for the year, net of tax	-	-	-	773,273	-	773,273	-	773,273
Total comprehensive income for the year	-	-	-	773,273	(6,241,130)	(5,467,857)	1	(5,467,857)
Transfer from reserves to profit and coverage of loss for 2015	-	-	(6,428,819)	-	6.428,819	-	-	
Liabilities for dividends	-	-	-	-	(23,531)	(23,531)	-	(23,531)
Employee share in profit	-	-	-	-	-	-	-	-
Gains realized from the revaluation reserves (effect of depreciation	-	-	-	(23,663)	-	(23,663)	-	(23,663)
Other increases/decreases	-	-	12,170	1,506	99,392	113,068	1	113,069
Balance at December 31, 2016	17,191,466	22,843,084	19,320,506	6,439,987	(6,502,689)	59,292,354	66	59,292,420
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
Loss for the year				-	(7,039,329)	(7,039,329)	(2)	(7,039.331)
Correction (note 3.1.)	-	-	-	-	238,273	238,273	-	238,273
Corrected loss for the year	-	-	-	-	(6,801,056)	(6,801,056)	(2)	(6,801,058)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2015 to December 31, 2015 (CORRECTED)
(Thousands of RSD)

	Issued Capita(Note 35)	Share Premium (Note 35)	Reserves from Profit and Other Reserve(Note 35)	Revaluation reserves (Note 35)	Retained Earnings/ Accumulated Losses (Note 35)	Total attibutable to equity holders of the parent (Note 35)	Non controlling interest (Note 35)	Total (Note 35)
Other comprehensive income for the year, net of income tax								
Decrease in revaluation reserves from property, plant and equipment	-	-	-	(234)	-	(234)	-	(234)
Net increase based on the change in the fair value of securities available-for-sale and foreign exchange difference on intercompany transactions	-	-	-	689,788	-	689,788	-	689,788
Correction (note 3.1.)	-	-	-	1,344,752	-	1,344,752	-	1,344,752
Corrected net increase based on the change in the fair value of securities available-for-sale and foreign exchange difference on intercompany transactions	-	-	-	2,034,540	-	2,034,540	-	2,034,540
Actuarial gains/(losses)	-	-	-	(39,843)	-	(39,843)	-	(39,843)
Tax effects on other comprehensive income	-	-	-	(93,202)	-	(93,202)	-	(93,202)
Correction (note 3.1.)	-	-	-	(201,713)	-	(201,713)	-	(201,713)
Corrected tax effects on other comprehensive income	-	-	-	(294,915)	-	(294,915)	-	(294,915)
Other comprehensive income for the year, net of tax	-	-	-	1,699,548	-	1,699,548	-	1,699,548
Total comprehensive income for the year	-	-	-	1,699,548	(6.801.056)	(5,101,508)	(2)	(5,101,510)
Transfer of part of profit for 2014 in reserves	-	-	4,616,652	-	(4.616.652)		-	
Liabilities for dividends	-	-	-	-	(1,962,751)	(1,962,751)	-	(1.962.751)
Employee share in profit	-	-	-	-	(347,000)	(347,000)	-	(347,000)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	-	(33,446)	33,446	-	-	
Other increases/decreses	-	-	2,662	470	1,802	4,934	-	4,934
	17,191,466	22,843,084	25,737,155	5,688,871	(6,766,239)	64,694,337	65	64.694.402

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 22, 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2016 to December 31, 2016
(Thousands of RSD)

	2016.	2015.
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**25,910,395**	**26,842,635**
Interest receipts	18,999,073	20,361,516
Fee and commission receipts	6,645,894	6,288,891
Receipts of other operating income	249,716	188,652
Dividend receipts and profit sharing	15,712	3,576
Cash used in operating activities	**(17,780,872)**	**(18,889,338)**
Interest payments	(4,611,405)	(6,307,483)
Fee and commission payments	(1,548,563)	(1,204,621)
Payments to, and on behalf of employees	(4,975,861)	(4,653,121)
Taxes, contributions and other duties paid	(850,525)	(878,747)
Payments for other operating expenses	(5,794,518)	(5,845,366)
Net cash inflows from operating activities prior to changes in loans and deposits	**8,129,523**	**7,953,297**
Decrease in loans and increase in deposits received and other liabilities	**39,021,996**	**25,371,475**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	-	25,371,475
Decrease in financial assets initially recognized at fair value through profit and loss, held for trading and other securities not held for investments	12,160,679	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	26,861,317	-
Increase in loans and decrease in deposits received and other liabilities	**(15,888,347)**	**(10,665,402)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(15,888,347)	-
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)
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	**31,263,172**	**22,659,370**
Income taxes paid	(32,936)	(22,247)
Dividends paid	(119,477)	(403)
Net cash generated by operating activities	**31,110,759**	**22,636,720**

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2016 to December 31, 2016
(Thousands of RSD)

	2016.	2015.
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	**40,753,985**	**30,082,331**
Proceeds from investment securities	40,739,298	30,052,943
Proceeds from the sales of intangible assets, property, plant and equipment	1,092	27,782
Proceeds from sales of investment properties	13,595	1,606
Cash used in investing activities	**(58,443,427)**	**(57,516,667)**
Cash used for investment securities	(57,848,368)	(57,118,678)
Cash used for the purchases of intangible assets, property, plant and equipment	(595,059)	(397,989)
Net cash used in investing activities	**(17,689,442)**	**(27,434,336)**
C. CASH GENERATED FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**124,293,315**	**122,582,139**
Inflows from the borrowings	124,293,315	122,582,139
Cash used in financing activities	**(136,856,025)**	**(127,150,287)**
Cash used in the repayment of borrowings	(136,856,025)	(127,150,287)
Net cash (used) / generated by financing activities	**(12,562,710)**	**(4,568,148)**
TOTAL CASH INFLOWS	229,979,691	204,878,580
TOTAL CASH OUTFLOWS	(229,121,084)	(214,244,344)
NET CASH (DECREASE) / INCREASE	**858,607**	**(9,365,764)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**38,666,685**	**47,896,270**
FOREIGN EXCHANGE GAINS	963,271	1,375,219
FOREIGN EXCHANGE LOSSES	(826,820)	(1,239,040)
CASH AND CASH EQUIVALENTS, END OF YEAR	**39,661,743**	**38,666,685**

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 22, 2017.

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

БЕОГРАД

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

1. ESTABLISHMENT AND ACTIVITY OF THE BANKING GROUP

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

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

Republic of Serbia	41.74%
EBRD, London	24.43%

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

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

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

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

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

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

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

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

As of December 31, 2014 the Group was comprised of the Central Office in Belgrade at the address of no.14, Svetog Save St. head office of Komercijalna banka a.d., Budva in Budva at the address of PC Podkošljun bb, head office of Komercijalna banka a.d., Banja Luka in Banja Luka at the address of no. 6, Veselina Masleše St., head office of Investment Fund Management Company KomBank Invest a.d., Beograd in Belgrade, at the address of no. 19, Kralja Petra St.; 34 branch offices and 228 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina (2015: 38 branch offices and 228 sub-branches).

As of December 31, 2016 the Group had 3,152 employees, and as of December 31, 2015 3,148 employees.

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

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

The Bank's consolidated financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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

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

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

Group members during 2016, kept accounting records and prepared individual financial statements in accordance with local laws, other regulations, which are based on International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") and the regulations of the respective central banks and regulatory bodies. The individual financial statements have been audited by the external auditors, based on applicable local regulations.

For the purpose of preparing consolidated financial statements, the individual financial statements of subsidiary banks were adjusted for financial statement presentation based on accounting regulations of the Republic of Serbia.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka ad, Beograd as at 17 March 2017.

The Bank's 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 are stated in dinars and rounded in thousands.

Functional currency EUR in the financial statements of Komercijalna banka ad, Budva and BAM from the financial statements of Komercijalna Banka AD, Banja Luka, are denominated into the reporting currency, which is the functional currency of the Parent Bank - dinar (RSD) based on the officially published exchange rates in the Republic of Serbia.

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2016:

- **IAS 27 Separate Financial Statements (amended)**

  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management had not made use of this amendment.

- **IAS 1: Disclosure Initiative (Amendment)**

  The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has not made use of this amendment.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has not made use of this assessment.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Bank had no transactions in scope of this amendment.

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

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

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not have any plans that fall within the scope of this amendment.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements:

  - ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

  - ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

  - ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

  - ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

  - ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

  - ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

  - ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

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

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

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements

    - ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

    - ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

    - ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

    - ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

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

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard (please see further under the same Note 2.3.)

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**

  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 16: Leases**

  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Management is in the process of assessing the effect that the requirements of this standard will have on the financial statements of the Bank.

- **Amendment in 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**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the amendments of this standard will have effect on 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 (continued)

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

  The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IAS 7: Disclosure Initiative (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the amendments of this standard will have effect on 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 (continued)

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

Key requirements of IFRS 9:

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018. In 2016 the Bank set up a multisector implementation team ('the Team') with members from its Risk, Finance and other business units to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the deputy Chief Executive Officer and competent for risk . Bank engage consultant to help to IFRS 9 be successfully implemented. As result of analyses of business model it is not determined that there are some facts that indicate that business model is not hold to collect payments from principal and interest. Currently, the Bank are finishing analysis in phases of classification and measurement and analysing elements of improving methodology of impairment and disclosure requirements.

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

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

Key requirements of IFRS 9: (continued)

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

During initial assessment Bank expect that:

- Loans and advances to customers and banks, that are classified as loans and receivables under IAS 39 are expected to in the most part be measured at amortised cost under IFRS 9 with eventual adjustments of contractual provisions.
- Financial instruments held for trading and those designated at FVPL are expected to be continue to be measured at FVPL
- The debt securities classified as available for sale under IAS 39 are expected to be measured as FVPL, amortised cost or FVOCI. As described above, the Bank is in the early stage of implementation of IFRS 9 and working with consultants on initial assessment of measurement of debt AFS securities.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank is analysing in which part of portfolio credit risk was increased significantly since initial recognition in order to include default rate for remaining life time for financial instrument for calculation of ECL. Establishing of this on regular bases is in process.

ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Bank under the contract, and
- The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

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

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

Key requirements of IFRS 9: (continued)

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The total loan portfolio would be group into Stage 1, Stage 2 and Stage 3:

- **Stage 1** – Performing loans when increase of credit risk is not detect from first recognition. The Bank calculates allowance based on 12-month expected credit losses.
- **Stage 2** – Underperforming loans when significantly increase of credit risk is detect from first recognition.
  The Bank calculates an allowance for the lifetime expected credit loss.
- **Stage 3** – Impaired loans.
  The Bank recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortised cost of the loan net of allowances.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Stage 1

The impairment of financial instruments that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis under IFRS 9 but it is expected to be on higher level as result of not using collaterals as deductible items from gross exposure.

Stage 2

All financial instruments with increase of credit risk from initial recognition would be classified in Stage 2 and loss allowance would calculated based on their lifetime ECLs, what is a new concept compared to IAS 39. The result of that would be increase of allowance relative of level of loan allowance calculate at the end of 2016.

The Bank considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. It is the Bank's policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

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

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

Key requirements of IFRS 9: (continued)

Stage 3

As well as under IAS 39, financial instument will be included in Stage 3 when there is objective evidence that the loan is credit impaired and it is not expected to the population in stage 3 be changed. Impairment on an individual basis will continue to be calculated on the same basis.

It is expected that loans in stage 3 will be the same as those considered to be impaired in accordance with IAS 39.

When forbearance results in the derecognition of the original loan the new loan will be classified as originated credit-impaired.

Forward looking information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Bank will consider forward-looking information such as macroeconomic factors (e.g. unemployment, GDP growth, interest rates and house prices) and economic forecasts.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. The Bank will use data that is as current as possible and adjustments will be made for significant events occurring prior to the reporting date to. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provisions for the effect of IFRS 9.

2.4. Going Concern

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation

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

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

The consolidated income statement and consolidated cash flow statement have been recalculated at the average exchange rate in the Republic of Serbia for the year 2016 of RSD 123.1015 for EUR 1 and RSD 62.9408 for BAM 1, while the other consolidated financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) were recalculated by applying the closing exchange rate effective as of the balance sheet date of RSD 123.4723 for EUR 1 and RSD 63.1304 for BAM 1.

(b) Foreign Exchange Denomination

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

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

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

		In RSD
	2016	**2015**
USD	117.1353	111.2468
EUR	123.4723	121.6261
CHF	114.8473	112.5230
BAM	63.1304	62.1864

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

The recognition of interest income on impaired loans is performed on a net basis, by reducing gross accrued interest for amount of impairment, ie for the amount that is likely not to be charged.

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Dividends

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

(h) Operating and Finance Lease Payments

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

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

(i) Tax Expenses

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

(i) Current Income Tax

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

(ii) Deferred Income Tax

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

Deferred income tax relating to items recognized directly credited or charged to equity is also charged in favor of capital.

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

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

(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"

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 are transferred to the borrower or received.. All other financial assets and liabilities are initially recognized on the date at which the relevant entity becomes a party to the contractual provisions of the instrument.(trade date)

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

(ii) Classification

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

The Group members classify financial liabilities as measured at amortized cost or held for trading – please refer to accounting 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 balance sheet when, and only when, a Group member has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vi) Fair Value Measurement (continued)

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vii) Identification and Measurement of Impairment (continued)

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).

(k) Cash and Cash Equivalents

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

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

(l) Trading Assets and Liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trading Assets and Liabilities (continued)

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

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

Derivatives

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

(m) Loans and Receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investment Securities

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

(i) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group members have the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available for sale. Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent a Group member from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investment Securities (continued)

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

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

(o) Property and Equipment

(i) Recognition and Measurement

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

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

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

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

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

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

(ii) Subsequent Costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property and Equipment (continued)

(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.

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4 - 5	20%-25%
Furniture and other equipment	5 – 15	6.7%-50%
Leasehold improvements	1 – 23	4.25%-86.2%

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

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

(p) Intangible Assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 7 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases

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

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

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

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2016 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

(x) Financial Guarantees

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

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

(y) Equity and Reserves

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Earnings per Share

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

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

(zz) Segment Reporting

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

In accordance with IFRS 8 "Operating Segments", the Group discloses information on 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 Bank uses the following:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Comparative data and correction of prior year error

As a result of adjustment of error, the Parent Bank has changed the openning balance and result for 2015, and made adjustments as follows:

Overview of completed correction in the Balance Sheet			*In RSD '000*
	Before correction	Correction	After correction
Securities available for sale	127.173.383	1.583.025	128.756.408
TOTAL ASSETS	**127.173.383**	**1.583.025**	**128.756.408**
Deferred tax liabilities	23.592	201.713	225.305
Reserve-tax effects		(201.713)	(201.713)
Loss	(6.299.631)	238.273	(6.061.358)
Reserves-effect of transfer of premiums and discounts	27.542.265	(238.273)	27.303.992
Reserves-change in methodology		1.583.025	1.583.025
TOTAL EQUITY AND LIABILITIES	**21.242.634**	**1.583.025**	**22.825.659**

Overview of completed correction in the Income Statement			*In RSD '000*
	Before correction	Correction	After correction
Interest income	18.856.309	238.273	19.094.582
Net loss	(6.299.631)	238.273	(6.061.358)

Based on the requirements of IAS 39 Financial instruments: recognition and measurement, IFRS 13 Fair value measurement and IAS 8-Accounting policies, changes in accounting estimates and errors, the Bank has amended the methodology of the fair value calculation of securities available for sale, predominantly government bonds issued by the Republic of Serbia.

Previous methodology for valuation of available for sale securities

For treasury bills of the Republic of Serbia issued in euros, the yield curve was constructed on the basis of executive rates from the last primary trading auctions while for the coupon bonds issued in euros yield curve was constructed based on Euribor interest rates with maturities of 1d to 12m and based on swap rates for EUR over one year with the addition of risk premium that is equal to the difference between the coupon rate and the risk free interest rate whose tenor corresponded to the duration of the bond.

In the case of treasury bills of the Republic of Serbia issued in dinars, yield curve was constructed on the basis of Belibor interest rates with maturities of 1d to 6m and executive rates from the last auctions from primary trading for maturity longer than 6 monhts while in case of coupon bonds of the Republic of Serbia issued in dinars the yield curve considered risk premium that is equal to:

- Fixed margin in case of bonds whose coupons depends on the reference rate of the National bank of Serbia increased by fixed spread;
- The difference between the coupon rate and the risk free interest rate in case of bonds with fixed coupons

The fair value of the securities was determined by discounting each cash flow with different discount factors of the corresponding tenors of the yield curve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Comparative data and correction of prior year error (continued)

Reasons for the change and main assumptions of the new methodology

The previous methodology for fair valuation of securities has not taken into account the circumstances on the local market of securities neither the requirements of the prevailing accounting standards:

- The Bank was using different discount rates for different cash flows generated on one security while one discount rate for discounting all future cash flows on security should be used according to the standard , being the principal and interest, since one discount rate (which corresponds to maturity of security) reflects all risks related to that security.
- For treasury bills the Bank was using discount rate of zero since prime market, according to the Bank, for these securities was not developed leading to the situation where fair value was equaled to their pair value.
- For coupons bonds in euros, risk fre interest rates were euribor/swap rates while rates inherent to domestic market (rates applicable for euro dominated bonds issued in domestic market from the government) should be used.

Main assumptions of the new methodology were (i) basing the valuation model on actual conditions on the domestic market and (ii) changed parameters for determining the uniform discount rate of future cash flows for individual securities.

Amended methodology for valuation of available for sale securities

In the amended methodology, for determining the fair value of the treasury bills and coupon bonds of the Republic of Serbia issued in euros, the yield curve is constructed from the last available (in relation to valuation date) executive rates of securities issued in euros from primary trading for tenors that greater of equal to one year and the last available executive rates from the secondary trading of securities whose residual maturity is less than one year.

In the case of securities issued by the Republic of Serbia in dinars, improved methodology for the calculation of fair value is based on the yield curve based on the Belibor interest rates for maturities of 1d to 6m and executive rates from the last available auctions of primary trading for tenors over 6 months.

The fair value of the securities was determined by discounting each individual cash flow with discount rate whose tenor corresponds to the remaining maturity of the security.

The effects of changes in the methodology for calculating the fair value has been accounted for both in the current year and retrospective adjustment has been applied and the effects on prior year has been disclosed in the Available for sale (Note 21) and equity-retained earnings and revaluation reserves (Note 35).

By the correction of previous reporting period the Parent bank has applied the requirmenets of the IAS 8 which refers to the retrospective restatements of data due to correction of prior year error and disclosure for each line item of the financial statements to which it applies.

4. RISK MANAGEMENT

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

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

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

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

Taking into account the changes of regulations of the National Bank of Serbia and the need for further improvement of risk management, during 2016 the Group carried out organizational and procedural changes to the risk management function (with special emphasis on the process of prevention and management of potentially risky loans and bad assets), as well as changes in internal procedures for governing risk management. By changing Strategy and risk management policies, the criteria for determining the basic principles of managing bad assets, as well as the highest acceptable level of non-performing loans for the Group have been defined.

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

4. RISK MANAGEMENT (continued)

Risk Management System

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

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

Risk Management Strategy sets out:

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

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

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

Policies for managing certain risk types define the following:

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

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.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

In 2016 members of the Group made the harmonization of internal documents (procedures and methodology) with modifications of regulations of the National Bank of Serbia, which relate to the management of credit risks, throughout comprehensiveness of definition of risky loans, termination of reprogramming and changes the definitions and methods of classification of restructured loans, as well as the implementation of regulations allowing relaxation of the calculated level of required reserves for potential losses, based on proactive management and reducing the level of problematic loans. In addition, the criteria for the materially significant loans that are individually assessed, the estimated value of collateral, appraisers, haircut, a change in the dynamics of the valuation of commercial real estate for NPL and annual analysis of movements in market value, as a requirement for the adequacy of the collateral, has been more closely defined.

In addition, the procedure of the prevention of corporate risky loans was adopted, in order to identify potentially risky (Watch List-a) clients, to mitigate credit risk of potentially risky clients and taking measures and actions in order to protect the interests of the Bank and to prevent adverse effects on the financial result and equity.

Competencies

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

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Parent Bank and the Group are exposed to. Also, the Executive Committee analyzes the risk management system, and at least once quarterly reports to the Board on the level of risk exposure and risk management and decide, with the prior approval of the Board of Directors, of any increase in the Group's exposure to an entity related to the Group and shall notify the Board of Directors.

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

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

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

4. RISK MANAGEMENT (continued)

Competencies (continued)

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

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

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

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

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.

4. RISK MANAGEMENT (continued)

Risk Types

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

4.1. Credit Risk

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

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

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

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

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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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 or transfer from the balance sheet to off balance sheet.

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.

Identification of problematic and restructured claims

The Group members monitor the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

Restructured non-problematic customers are classified into the category of potentially risky customers, while restructured problematic clients are classified into the category of clients with problematic claims.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of clients in the Standard category of clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementation of preventive actions against risky placements, i.e. mitigation and reduction of credit risk through the implementation of appropriate strategies and action plans. Potentially risky clients are monitored more frequently compared to standard clients and if further increase in credit risk is determined, clients are classified into the category of clients with problematic claims.

Problematic claims include all the claims that are late in settling obligations over 90 days, claims for which based on assessed financial position is estmated that the borrower will not be able to meet its obligations in full without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), claims for which the impairment loss is determined on an individual basis, as well as contingent liabilities arising from guarantees issued (if there is likely to be activated), and irrevocable commitments (if activating them would lead to new receivables for which the Group considers it would not be collected in full without the realization of collateral). Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred. The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (reduction of interest rates, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. In addition, receivables that are classified in the category of restructured debts are those for which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Group member has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Group (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

The Group members regularly monitor the measures taken to restructure the risky placements and control the timing of taking these measures. Monitoring of the measures taken, or the realization of the same, such as settlement of due liabilities, is carried out on a daily basis. The semi-annual monitoring of restructured business clients is performed regularly every 6 months or more often if necessary. Analysis of financial statements, analysis of indebtedness, verification of adequacy of collaterals and monitoring overall operations are the key points of above mentioned monitoring.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the group of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not grater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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 with default status (risky placement, risk category 4 according to internal rating system which has default status and risk category 5) 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.

The threshold of materiality, the Group members determine based on the analysis of value structure of its portfolio by customer and product.

Allowance for impairment on an individual basis is calculated if there is objective evidence of impairment that is a result of one or more events that occurred after the initial recognition of the financial asset, and if there is a measurable reduction in future cash flows.

The following is considered objective evidence indicating the need for loan impairment:

- Financial condition or creditworthiness of the debtor indicates significant problems in his business and the Group members have estimated that he will not be able to fulfill its obligations in full,
- Failure to meet contractual obligations, delinquency in payment of interest/principal and other contractual provisions (evidence of failure or delay in payment),
- Information about the blockade of the debtor's account,
- Concessions provided by the Group members to the debtor due to economic or legal reasons (evidence of an approved landfill charge, restructured receivables and other approved concessions due to financial difficulties in the business of the debtor),
- Significant difficulties in the business of the debtor (evidence of bankruptcy, liquidation, financial reorganization of the debtor, reduced rating of the debtor, a significant fall in revenue, a significant reduction in capital, damage due to force majeure that the debtor has suffered, loss of license, change of management, etc.),
- Internal and external factors that may affect the collectability of receivables (evidence of adverse changes in business conditions in some industries which are reflected on the financial ability of the debtor, evidence of macroeconomic trends: the decline in demand, falling prices, budget deficit, operations in times of crisis or recession, etc.),
- Local economic factors that cause collection problems.

Evidence can be documented by the analysis in Watch process, by information about the increased level of risk borrowers, reports of the meetings that were held with the debtor, reports on conducted monitoring of collateral clients, reports of forced collection and days of blockade, reports on loans in default and other information that the Group has.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

When there is objective evidence, the amount of the impairment is estimated by discounting the future cash flows from business. The calculation of the expected future cash flows also includes resources from the activation of collateral (secondary sources), if it is assessed that there is no objective evidence that the loan can be settled from the expected future cash flows from business and will realistically be settled from collaterals.

Group-Level Assessment

Impairment is assessed on a group basis for loans that are not individually significant and for individually significant loans that do not have the status of default, for loans for which the calculation on an individual basis has not determined the amount of impairment, as well as on basis of fees and other receivables that have elements for reducing the present value.

Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (credit groups by types of clients and loans), based on the internal rating system, on a monthly basis.

Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product.

Appreciating the specifics in doing business with clients, different migration matrixes are established for legal entities, for individuals by type of product, banks and entrepreneurs.

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. The Group members also perform determination of probable loss for unused commitments, for which it have not contracted unconditionally and without notice, the possibility of cancellation of contractual obligations. When calculating provisions for unused commitments, the Group members use the conversion factor (CCF), by which the book value of unused commitments is adjusted.

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.

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that Group members use, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of credit risk.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

As a standard collaterals Group members accept contractual authorizations and bills from clients, while as an additional instrument, depending on the assessment of credit risk, and the types of loans, following instruments can be agreed:

- For commercial loans - pledge over movable and immovable assets (mortgages), deposits, bank, corporate and government guarantees, sureties, pledge over securities, stocks and receivables;
- For retail loans - mortgages on immovable properties, deposits, sureties, insurance from National corporation for insurance of housing loans and more

When assessing property or pledges over movable property, the Group members provide expert and independent assessment of the value of real estate by authorized appraiser, to reduce the potential risk of unrealistic valuation to a minimum. The premises, supplies, equipment and other movable property which is the subject of the pledge must be insured by an insurance company acceptable to the Group members, and the insurance policies must be endorsed in favor of the Group members.

In order to protect against changes in the market value of the collateral (mortgage, pledge, securities, etc.), the estimated value of collateral is adjusted for a defined percentage (haircut) depending on the type of collateral and the location, which is regularly reviewed and revised. In this way, the Group members protect itself from potential losses arising from the inability to collect receivables from collateral.

The correction factor (haircut) is the difference between the estimated value of collateral and the proceeds that can be realized by selling the collateral in the process of collection. Haircut reduces estimated market value of any collateral to the expected value that will be charged for its implementation in the future, and taking into account the volatility of the market value and the possibility of realizing cash outflows based on activation fee and sales (court costs, tax costs charged to seller, consultants and advertising costs and other costs), the expected decline in market value since the assessment time until the time of the planned realization, and the inherent uncertainty in determining the value.

The Group members pay attention to regular assessment/valuation of collateral. For performing loans (PE), mortgages on residential and commercial property are assessed at least once every three years by a licensed appraiser. For non-performing loans (NPE), a mortgage on a residential property is assessed at least once every three years, mortgages on office buildings (offices, shops, warehouses, building land with and without planning permission, agricultural land, etc.) at least once every 18 months, a mortgage on the industrial facilities are evaluated at least once a year (12 months), by a certified appraiser. Securities are assessed on a monthly basis, for all loans.

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from portfolio with movements in the market value in the Group members country market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the business real estates, the Group members conduct verification of value at least once a year, and for housing and other real estate at least once every three years.

The value of the collateral and the tendency of movement of it's value, the Group members monitor and update to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2016 and 2015 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

In thousand RSD

	31.12.2016.		31.12.2015.	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**472,812,097**	**428,827,608**	**464,618,477**	**416,461,558**
Cash and cash funds held with the central bank	61,919,102	61,919,102	68,895,218	68,895,218
Loans and receivables due from banks and other financial institutions	43,528,675	43,216,681	18,248,795	17,848,897
Loans and receivables due from customers	198,491,610	166,401,008	217,556,125	179,422,656
Financial assets	140,590,950	140,425,071	132,976,276	132,878,236
Other assets	10,957,501	7,255,156	10,442,020	7,661,929
Non-monetary assets	17,324,259	9,610,590	16,500,043	9,754,622
II. Off-balance sheet items	**33,930,412**	**33,876,991**	**30,916,843**	**30,341,437**
Payment guarantees	4,336,212	4,277,043	5,337,033	5,164,181
Performance bonds	6,950,946	6,920,093	6,756,947	6,640,059
Irrevocable commitments	22,050,789	22,371,693	18,250,616	18,241,064
Other items	592,465	308,162	572,247	296,133
Total (I+II)	**506,742,509**	**462,704,599**	**495,535,320**	**446,802,995**

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

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

In thousand RSD

31.12.2016.	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Groupl impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	40,852,705	1,671,866	42,524,571	250,528	970,154	1,220,682	41,303,889
Cash Loans	-	-	21,104,656	770,732	21,875,388	522,362	756,789	1,279,151	20,596,236
Agricultural Loans	-	-	6,261,241	415,510	6,676,750	85,184	362,217	447,401	6,229,349
Other Loans	-	-	5,480,042	652,883	6,132,926	165,755	652,891	818,646	5,314,280
Micro Business	-	-	8,257,892	1,986,633	10,244,525	283,577	1,314,069	1,597,646	8,646,879
Total Retail	**-**	**-**	**81,956,536**	**5,497,623**	**87,454,160**	**1,307,407**	**4,056,120**	**5,363,527**	**82,090,633**
Large corporate clients	-	-	34,812,545	24,078,785	58,891,330	386,634	19,545,036	19,931,670	38,959,660
Middle corporate clients	-	-	18,523,741	3,237,128	21,760,869	244,029	2,292,400	2,536,429	19,224,440
Small corporate clients	-	-	8,048,981	2,801,647	10,850,628	156,257	1,838,978	1,995,235	8,855,394
State owned clients	1,893,832	-	7,912,023	1,674,358	11,480,213	64,686	562,870	627,556	10,852,657
Other	-	-	6,428,827	1,625,583	8,054,410	10,603	1,625,583	1,636,185	6,418,225
Total Corporate	**1,893,832**	**-**	**75,726,117**	**33,417,501**	**111,037,450**	**862,208**	**25,864,867**	**26,727,075**	**84,310,375**
Total	**1,893,832**	**-**	**157,682,653**	**38,915,125**	**198,491,610**	**2,169,615**	**29,920,987**	**32,090,602**	**166,401,008**
Due from banks	**40,418,883**	**-**	**2,799,917**	**309,874**	**43,528,675**	**2,120**	**309,874**	**311,994**	**43,216,681**

Note: According to internal segmentation, retail sector incorporates private individuals, agricultural and micro business clients (entrepreneurs and micro clients)

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

In thousand RSD

31.12.2015	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Groupl impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	39,982,376	1,492,883	41,475,259	383,054	639,449	1,022,503	40,452,756
Cash Loans	-	-	18,044,076	750,816	18,794,892	550,245	707,834	1,258,078	17,536,813
Agricultural Loans	-	-	5,434,656	411,036	5,845,692	77,509	346,831	424,340	5,421,352
Other Loans	-	-	6,124,513	637,613	6,762,125	201,447	631,176	832,623	5,929,502
Micro Business	-	-	6,804,521	2,734,483	9,539,004	440,330	1,297,550	1,737,880	7,801,124
Total Retail	**-**	**-**	**76,390,141**	**6,026,830**	**82,416,971**	**1,652,584**	**3,622,840**	**5,275,424**	**77,141,547**
Large corporate clients	-	-	30,561,249	34,886,378	65,447,627	255,032	19,475,413	19,730,445	45,717,182
Middle corporate clients	-	-	20,746,143	6,377,465	27,123,609	162,316	3,988,567	4,150,883	22,972,726
Small corporate clients	-	-	7,395,037	6,308,272	13,703,309	126,228	4,094,816	4,221,044	9,482,265
State owned clients	3,822,508	136,129	15,781,903	3,229,726	22,970,266	17,841	2,796,528	2,814,369	20,155,897
Other	-	-	3,784,433	2,109,911	5,894,343	932	1,940,372	1,941,304	3,953,039
Total Corporate	**3,822,508**	**136,129**	**78,268,765**	**52,911,752**	**135,139,154**	**562,350**	**32,295,695**	**32,858,045**	**102,281,109**
Total	**3,822,508**	**136,129**	**154,658,906**	**58,938,582**	**217,556,125**	**2,214,934**	**35,918,535**	**38,133,469**	**179,422,656**
Due from banks	**15,040,112**	**1,223,716**	**1,585,208**	**399,760**	**18,248,795**	**138**	**399,760**	**399,898**	**17,848,897**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment in Balance sheet

In thousand RSD

	31.12.2015.	Increase in impairment	Decrease in impairment	Other changes*	31.12.2016.
Retail	5,275,424	2,212,640	(1,932,238)	(192,301)	5,363,527
Corporate	32,858,045	19,777,362	(8,374,365)	(17,533,967)	26,727,075
Total	**38,133,469**	**21,990,002**	**(10,306,603)**	**(17,726,268)**	**32,090,602**
Due from banks	**399,898**	**5**	**-**	**(87,909)**	**311,994**

**Other changes relate to transfer of completely impaired receivables from balance sheet to off-balance sheet, foreign exchange diffrencies and other changes.*

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 does 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. Loans and receivables that are 100% impaired are in the individually impaired loans and receivables.

The significant increase in allowance for credit losses in 2016 is mostly a result of the Parent bank's deteriorating quality of the loan portfolio, the new problematic loans, lower values of mortgage and beggining of bankruptcy proceedings.

Receivables Matured but not Impaired

Loans and receivables matured but not impaired represent those Parent bank's loans and receivables where there is default in settling liabilities for contractually agreed interest or principal outstanding (the report shows the entire receivable amount as matured for any matured portion of principal or interest). The Parent Bank believes that it is not appropriate to make impairment allowance for such receivables given that there is certainty of collection (receivables from Republic of Serbia). In 2016., the Group members did not have matured and not impaired placements.

Receivables not Matured and not Impaired

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

The Bank followed the Guideline o disclosure of information on the asset of the assets of National Bank of Serbia in preparation of the credit risk tables. The form and content of the tables are derived from the related Guideline.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans not impaired, by days past due

In thousand RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	-	-	-	-	-	-
Cash Loans	-	-	-	-	-	-
Agricultural Loans	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-
Micro Businesses	-	-	-	-	-	-
Retail clients	**-**	**-**	**-**	**-**	**-**	**-**
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	-	-	-	-	-	-
Small corporate clients	-	-	-	-	-	-
State owned clients	1,893,832	-	-	-	-	1,893,832
Other	-	-	-	-	-	-
Corporate clients	**1,893,832**	**-**	**-**	**-**	**-**	**1,893,832**
By receivables categories						
Non-problematic receivables	**1,654,188**	**-**	**-**	**-**	**-**	**1,654,188**
Out of which: restructured	-	-	-	-	-	-
Problematic receivables	**239,644**	**-**	**-**	**-**	**-**	**239,644**
Out of which: restructured	-	-	-	-	-	-
Total	**1,893,832**	**-**	**-**	**-**	**-**	**1,893,832**
Due from banks	**40,418,883**	**-**	**-**	**-**	**-**	**40,418,883**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans not impaired, by days past due

In thousand RSD

31.12.2015	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
By type of loan						
Housing Loans	-	-	-	-	-	-
Cash Loans	-	-	-	-	-	-
Agricultural Loans	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-
Micro Businesses	-	-	-	-	-	-
Retail clients	**-**	**-**	**-**	**-**	**-**	**-**
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	-	-	-	-	-	-
Small corporate clients	-	-	-	-	-	-
State owned clients	3,822,508	-	-	-	136,129	3,958,637
Other	-	-	-	-	-	-
Corporate clients	**3,822,508**	**-**	**-**	**-**	**136,129**	**3,958,637**
By receivables categories						
Non-problematic receivables	**3,460,496**	**-**	**-**	**-**	**-**	**3,460,496**
Out of which: restructured	-	-	-	-	-	-
Problematic receivables	**362,012**	**-**	**-**	**-**	**136,129**	**498,141**
Out of which: restructured	-	-	-	-	-	-
Total	**3,822,508**	**-**	**-**	**-**	**136,129**	**3,958,637**
Due from banks	**15,047,560**	**1,216,268**	**-**	**-**	**-**	**16,263,828**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans impaired, by days past due

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	39,345,742	671,483	188,593	338,781	1,979,972	42,524,571
Cash Loans	19,165,603	1,370,607	159,710	71,028	1,108,440	21,875,388
Agricultural Loans	5,928,842	209,916	55,710	19,156	463,126	6,676,750
Other Loans	5,065,766	291,352	29,790	14,413	731,605	6,132,926
Micro Businesses	6,969,894	981,118	81,263	87,930	2,124,319	10,244,525
Retail clients	**76,475,848**	**3,524,475**	**515,066**	**531,309**	**6,407,463**	**87,454,160**
Large corporate clients	37,043,438	3,757,463	49,512	-	18,040,917	58,891,330
Middle corporate clients	17,277,227	1,548,658	26,237	27,052	2,881,694	21,760,869
Small corporate clients	7,545,556	895,493	21,321	73,734	2,314,525	10,850,628
State owned clients	8,754,250	234,309	-	-	597,822	9,586,381
Other	7,786,646	177,701	1,262	-	88,801	8,054,410
Corporate clients	**78,407,116**	**6,613,625**	**98,332**	**100,786**	**23,923,760**	**109,143,618**
By receivables categories						
Non-problematic receivables	**148,743,980**	**6,454,133**	**501,900**	**508,825**	**24,343**	**156,233,180**
Out of which: restructured	2,684,851	599,992	34,572	41,979	-	3,361,395
Problematic receivables	**6,138,984**	**3,683,967**	**111,498**	**123,270**	**30,306,879**	**40,364,598**
Out of which: restructured	2,848,138	3,579,359	60,187	7,057	20,922,319	27,417,059
Total	**154,882,964**	**10,138,100**	**613,398**	**632,094**	**30,331,222**	**196,597,778**
Due from banks	**3,109,791**	**-**	**-**	**-**	**-**	**3,109,791**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans impaired, by days past due

In thousand RSD

31.12.2015	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	38,148,449	640,284	322,945	358,596	2,004,985	41,475,259
Cash Loans	16,482,557	1,048,007	129,586	88,145	1,046,596	18,794,892
Agricultural Loans	5,034,177	254,074	67,053	30,221	461,556	5,847,080
Other Loans	5,673,962	297,890	36,301	24,167	728,417	6,760,737
Micro Businesses	5,730,473	753,631	152,449	194,854	2,707,598	9,539,004
Retail clients	**71,069,618**	**2,993,886**	**708,333**	**695,983**	**6,949,151**	**82,416,971**
Large corporate clients	36,668,735	4,374,258	158,134	-	24,246,500	65,447,627
Middle corporate clients	19,231,930	866,576	166,006	656,781	6,202,315	27,123,609
Small corporate clients	6,886,109	598,804	74,241	4,304	6,139,852	13,703,309
State owned clients	15,546,999	273,911	7,612	-	3,183,107	19,011,630
Other	5,209,371	3,543	194,324	2,369	484,737	5,894,343
Corporate clients	**83,543,144**	**6,117,092**	**600,317**	**663,453**	**40,256,511**	**131,180,517**
By receivables categories						
Non-problematic receivables	**152,655,557**	**8,949,775**	**1,258,570**	**1,288,699**	**24,577**	**164,177,177**
Out of which: restructured	4,711,630	4,296,413	312,258	729,375	-	10,049,676
Problematic receivables	**1,957,205**	**161,203**	**50,081**	**70,737**	**47,181,085**	**49,420,311**
Out of which: restructured	292,652	98,189	435,527	3,555	18,285,886	19,115,810
Total	**154,612,761**	**9,110,978**	**1,308,651**	**1,359,436**	**47,205,662**	**213,597,488**
Due from banks	**1,879,504**	**-**	**-**	**-**	**105,464**	**1,984,968**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment

31.12.2016	Gross 31.12.2015	Impaired during the year	Cease being impaired during the year	Foreign exchange rate effect	Other Changes	Gross 31.12.2016	Net 31.12.2016
Housing Loans	41,475,259	4,013,345	(942,907)	655,673	(2,676,799)	42,524,571	41,303,889
Cash Loans	18,794,892	13,117,282	(7,669,009)	30,390	(2,398,168)	21,875,388	20,596,236
Agricultural Loans	5,845,692	3,656,512	(1,855,403)	67,407	(1,037,458)	6,676,750	6,229,349
Other Loans	6,762,124	1,041,355	(1,515,918)	8,759	(163,395)	6,132,926	5,314,280
Micro Businesses	9,539,004	6,042,026	(3,952,307)	113,839	(1,498,038)	10,244,525	8,646,879
Retail	**82,416,971**	**27,870,521**	**(15,935,543)**	**876,070**	**(7,773,858)**	**87,454,160**	**82,090,633**
Large corporate clients	65,447,627	4,968,835	(12,385,315)	783,106	77,077	58,891,330	38,959,660
Middle corporate clients	27,123,609	3,383,141	(6,549,451)	333,484	(2,529,913)	21,760,869	19,224,440
Small corporate clients	13,703,309	2,227,852	(4,994,970)	158,256	(243,818)	10,850,628	8,855,394
State owned clients	19,011,630	1,112,715	(6,871,069)	258,199	(3,925,094)	9,586,381	8,958,825
Other	5,894,343	3,550	(648,588)	41,570	2,763,533	8,054,410	6,418,225
Corporate Clients	**131,180,517**	**11,696,093**	**(31,449,394)**	**1,574,614**	**(3,858,214)**	**109,143,618**	**82,416,543**
Total	**213,597,488**	**39,566,614**	**(47,384,937)**	**2,450,684**	**(11,632,072)**	**196,597,778**	**164,507,177**
Due from banks	**1,984,968**	**1,765,729**	**(656,482)**	**-**	**15,578**	**3,109,791**	**2,797,798**

*Other changes relate to orderly settlement of debt during 2016. which caused decrease in credit exposure.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables

In thousand RSD

31.12.2016	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**87,454,160**	**5,363,527**	**6,926,920**	**1,194,271**	**4,831,972**	**7,92%**	**4,073,457**
Housing Loans	42,524,571	1,220,682	2,317,300	450,074	1,131,862	5,45%	1,946,947
Cash Loans	21,875,388	1,279,151	1,201,269	62,924	1,107,338	5,49%	181,760
Agricultural Loans	6,676,750	447,401	482,267	39,016	397,270	7,22%	278,995
Other	6,132,926	818,646	745,751	489	732,288	12,16%	22,430
Micro Businesses	10,244,525	1,597,646	2,180,334	641,768	1,463,213	21,28%	1,643,325
Corporate	**111,037,450**	**26,727,075**	**33,677,322**	**26,222,788**	**25,892,294**	**30,33%**	**26,060,097**
Agriculture	6,963,406	296,167	355,855	51,981	233,910	5,11%	352,224
Manufacturing Industry	36,548,279	10,372,448	14,377,412	12,820,759	10,109,059	39,34%	12,904,699
Electric Energy	311,333	49,207	-	-	-	0,00%	-
Construction	3,865,325	1,644,715	1,660,952	1,308,284	1,513,279	42,97%	1,567,268
Wholesale and Retail	30,609,582	4,712,214	5,726,507	4,289,886	4,525,657	18,71%	4,969,495
Service Activities	12,166,402	2,577,391	2,946,538	2,876,445	2,457,942	24,22%	2,314,905
Real Estate Activities	1,837,179	704,562	1,421,259	954,401	696,020	77,36%	1,332,954
Other	18,735,945	6,370,370	7,188,799	3,921,032	6,356,425	38,37%	2,618,553
Total	**198,491,610**	**32,090,602**	**40,604,242**	**27,417,059**	**30,724,266**	**20,46%**	**30,133,554**
Due from banks	**43,528,675**	**311,994**	**309,874**	**-**	**309,874**	**0,71%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables (continued)

In thousand RSD

31.12.2015	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**82,416,971**	**5,275,424**	**7,299,635**	**856,681**	**4,652,102**	**8,86%**	**4,313,074**
Housing Loans	41,475,259	1,022,503	2,178,618	187,676	930,590	5,25%	1,882,106
Cash Loans	18,794,892	1,258,078	1,116,755	33,095	1,049,214	5,94%	104,256
Agricultural Loans	5,847,080	424,340	481,357	18,943	376,290	8,23%	257,017
Other	6,760,737	832,623	747,284	1,041	727,540	11,05%	28,356
Micro Businesses	9,539,004	1,737,880	2,775,621	615,926	1,568,469	29,10%	2,041,339
Corporate	**135,139,154**	**32,858,045**	**42,618,817**	**18,259,129**	**31,266,808**	**31,54%**	**32,514,042**
Agriculture	5,309,323	152,870	422,260	9,881	130,630	7,95%	341,330
Manufacturing Industry	44,346,362	7,963,410	8,031,855	6,611,934	6,496,990	18,11%	6,850,807
Electric Energy	4,070,221	5,827	174,972	-	5,231	4,30%	174,960
Construction	3,843,578	745,241	1,506,282	317,983	683,094	39,19%	1,552,888
Wholesale and Retail	31,673,415	4,980,499	6,820,116	1,294,802	4,621,075	21,53%	5,533,322
Service Activities	12,115,095	1,336,866	3,189,286	2,847,094	1,316,990	26,32%	2,692,214
Real Estate Activities	2,116,655	571,531	1,134,079	734,457	565,129	53,58%	1,076,806
Other	31,664,505	17,101,801	21,339,968	6,442,978	17,447,668	67,39%	14,291,716
Total	**217,556,125**	**38,133,470**	**49,918,452**	**19,115,810**	**35,918,910**	**22,95%**	**36,827,116**
Due from banks	**18,248,795**	**399,898**	**399,760**	**-**	**399,760**	**2,19%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables (continued)

Changes in non-performing receivables

In thousand RSD

	Gross 31.12.2015	New non-performing receivables	Decrease in non-performing receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2016	Net 31.12.2016
Housing Loans	2,178,618	598,649	(389,160)	26,324	(97,265)	2,317,166	1,185,304
Cash Loans	1,116,755	218,300	(102,884)	3,315	(34,318)	1,201,169	93,831
Agricultural Loans	481,357	78,138	(53,770)	2,756	(26,235)	482,245	84,975
Other Loans	747,284	90,639	(80,513)	1,137	(12,815)	745,733	13,445
Micro Businesses	2,775,621	240,468	(835,816)	27,971	(29,191)	2,179,052	715,838
Retail	**7,299,635**	**1,226,194**	**(1,462,144)**	**61,504**	**(199,824)**	**6,925,365**	**2,093,393**
Large corporate clients	24,615,973	7,439,981	(8,389,997)	224,863	187,974	24,078,794	4,533,758
Middle corporate clients	6,185,390	1,041,537	(3,760,296)	55,365	(293,801)	3,228,194	930,506
Small corporate clients	6,149,789	597,526	(3,758,903)	53,851	(210,002)	2,832,261	971,157
State owned clients	3,681,053	1,076,536	(2,752,808)	42,094	(132,873)	1,914,002	1,351,133
Other	1,986,612	-	(380,997)	22,129	(2,119)	1,625,625	29
Corporate Clients	**42,618,817**	**10,155,581**	**(19,043,001)**	**398,301**	**(450,822)**	**33,678,877**	**7,786,583**
Total	**49,918,452**	**11,381,775**	**(20,505,145)**	**459,805**	**(650,646)**	**40,604,242**	**9,879,975**
Due from banks	**399,760**	**-**	**(105,463)**	**-**	**15,578**	**309,874**	**-**

**Other changes relate to partially increase/decrease of the amount of receivables from one loan during the year*

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.3. Non problematic receivables

In thousand RSD

	31.12.2016					31.12.2015				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals
Housing Loans	39,585,087	616,664	5,520	40,207,271	39,041,592	38,870,094	415,462	11,085	39,296,641	37,715,100
Cash Loans	20,592,587	79,205	2,326	20,674,119	13,898,294	17,570,597	106,107	1,433	17,678,137	9,215,561
Agricultural Loans	6,166,607	25,291	2,586	6,194,483	5,624,628	5,334,830	30,893	-	5,365,723	4,824,721
Other Loans	5,341,209	41,914	4,052	5,387,175	198,039	5,967,594	44,345	1,514	6,013,453	299,406
Micro Businesses	7,341,879	418,421	303,890	8,064,191	8,825,434	5,927,417	628,955	207,012	6,763,383	7,310,086
Retail	**79,027,369**	**1,181,496**	**318,375**	**80,527,240**	**67,587,985**	**73,670,532**	**1,225,760**	**221,044**	**75,117,336**	**59,364,874**
Large corporate clients	30,707,102	4,105,443	-	34,812,545	41,215,722	29,618,878	11,213,060	-	40,831,938	48,131,772
Middle corporate clients	18,149,288	359,573	4	18,508,866	23,518,854	18,857,694	1,989,707	91,522	20,938,923	25,676,809
Small corporate clients	7,394,235	595,028	30,119	8,019,382	10,093,591	6,811,288	200,729	540,351	7,552,368	9,325,463
State owned clients	7,757,111	500,825	1,308,275	9,566,211	6,226,630	6,689,797	10,506,909	2,092,951	19,289,656	12,041,513
Other	940,332	5,473,897	38,896	6,453,124	5,119,893	619,519	3,077,797	210,137	3,907,452	2,654,342
Corporate Clients	**64,948,069**	**11,034,765**	**1,377,294**	**77,360,128**	**86,174,689**	**62,597,175**	**26,988,201**	**2,934,960**	**92,520,337**	**97,829,898**
Total	**143,975,438**	**12,216,261**	**1,695,669**	**157,887,368**	**153,762,675**	**136,267,707**	**28,213,961**	**3,156,004**	**167,637,673**	**157,194,772**
Due from banks	**43,218,801**	**-**	**-**	**43,218,801**	**223,425**	**17,849,035**	**-**	**-**	**17,849,035**	**53,267**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables

In thousand RSD

31.12.2016

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**87,454,160**	**5,363,527**	**1,910,287**	**1,194,271**	**575,309**	**2,18%**	**1,694,101**
Housing Loans	42,524,571	1,220,682	948,830	450,074	193,179	2,23%	848,942
Cash Loans	21,875,388	1,279,151	134,317	62,924	44,877	0,61%	91,182
Agricultural Loans	6,676,750	447,401	39,965	39,016	22,814	0,60%	36,855
Other	6,132,926	818,646	1,089	489	489	0,02%	130
Micro Businesses	10,244,525	1,597,646	786,086	641,768	313,950	7,67%	716,991
Corporate Clients	**111,037,450**	**26,727,075**	**28,868,167**	**26,222,788**	**21,018,784**	**26,00%**	**24,163,361**
Agriculture	6,963,406	296,167	233,450	51,981	10,585	3,35%	191,475
Manufacturing Industry	36,548,279	10,372,448	13,022,853	12,820,759	9,636,129	35,63%	11,671,209
Electric Energy	311,333	49,207	-	-	-	0,00%	-
Construction	3,865,325	1,644,715	1,308,284	1,308,284	1,224,520	33,85%	1,265,365
Wholesale and Retail	30,609,582	4,712,214	6,064,460	4,289,886	3,451,874	19,81%	5,963,761
Service Activities	12,166,402	2,577,391	2,981,533	2,876,445	2,427,775	24,51%	2,341,313
Real Estate Activities	1,837,179	704,562	967,176	954,401	644,009	52,64%	902,578
Other	18,735,945	6,370,370	4,290,412	3,921,032	3,623,891	22,90%	1,827,660
Total	**198,491,610**	**32,090,602**	**30,778,454**	**27,417,059**	**21,594,093**	**15,51%**	**25,857,462**
Due from banks	**43,528,675**	**311,994**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables

In thousand RSD

31.12.2015

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**82,416,971**	**5,275,424**	**1,359,141**	**856,681**	**317,481**	**1,65%**	**1,224,519**
Housing Loans	41,475,259	1,022,503	468,297	187,676	92,884	1,13%	417,637
Cash Loans	18,794,892	1,258,078	66,788	33,095	29,464	0,36%	38,850
Agricultural Loans	5,847,080	424,340	30,010	18,943	3,562	0,51%	29,467
Other	6,760,737	832,623	9,592	1,041	1,336	0,14%	7,853
Micro Businesses	9,539,004	1,737,880	784,453	615,926	190,234	8,22%	730,713
Corporate Clients	**135,139,154**	**32,858,045**	**27,806,345**	**18,259,129**	**13,450,038**	**20,58%**	**24,498,249**
Agriculture	5,309,323	152,870	9,881	9,881	9,881	0,19%	9,881
Manufacturing Industry	44,346,362	7,963,410	13,844,835	6,611,934	6,688,432	31,22%	12,754,172
Electric Energy	4,070,221	5,827	-	-	-	0,00%	-
Construction	3,843,578	745,241	317,983	317,983	216,645	8,27%	302,427
Wholesale and Retail	31,673,415	4,980,499	3,153,414	1,294,802	336,246	9,96%	3,037,330
Service Activities	12,115,095	1,336,866	2,863,013	2,847,094	1,053,980	23,63%	2,617,030
Real Estate Activities	2,116,655	571,531	734,457	734,457	366,723	34,70%	734,457
Other	31,664,505	17,101,801	6,882,762	6,442,978	4,778,131	21,74%	5,042,952
Total	**217,556,125**	**38,133,470**	**29,165,486**	**19,115,810**	**13,767,518**	**13,41%**	**25,722,768**
Due from banks	**18,248,795**	**399,898**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousand RSD

	Gross 31.12.2015	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2016	Net 31.12.2016
Housing Loans	468,297	548,034	(57,048)	8,794	(19,247)	948,830	755,651
Cash Loans	66,789	77,315	(5,561)	726	(4,952)	134,317	89,440
Agricultural Loans	30,010	18,090	(5,320)	342	(3,156)	39,965	17,151
Other Loans	9,592	-	(1,625)	144	(7,022)	1,089	600
Micro Businesses	784,453	165,000	(122,913)	11,380	(51,835)	786,086	472,136
Retail	**1,359,142**	**808,439**	**(192,467)**	**21,385**	**(86,212)**	**1,910,287**	**1,334,978**
Large corporate clients	22,101,853	4,976,343	(2,256,377)	271,206	38,383	25,131,407	6,231,180
Middle corporate clients	1,571,913	808,668	(644,456)	19,803	(26,819)	1,729,109	622,940
Small corporate clients	1,049,518	475,229	(196,582)	12,708	(185,002)	1,155,871	533,389
State owned clients	2,643,276	276,218	(2,452,568)	36,217	(20,742)	482,401	92,498
Other	439,784	-	(77,080)	6,676	-	369,380	369,376
Corporate Clients	**27,806,344**	**6,536,458**	**(5,627,064)**	**346,610**	**(194,180)**	**28,868,167**	**7,849,383**
Total	**29,165,486**	**7,344,897**	**(5,819,531)**	**367,995**	**(280,392)**	**30,778,454**	**9,184,361**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

**Other changes relate to partially increase/decrease of the amount of restructured receivables from one loan during the year*

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

Measures implemented by the Bank during the restructuring of loans

The Group members carry out various restructuring measures, depending on the client's needs, respecting the interests of the group with a complete understanding of the business, financial and collateral position of client.

The measures most often taken by the Group members during the restructuring of loans are:

- Extension of the maturity date, which is usually accompanied also by adjusting the interest rate that is adjusted to the financial situation of clients,
- The introduction of a grace period or moratorium on settlement of liabilities within a specified period,
- Capitalization of maturity, if there are outstanding liabilities due to date, those are in the process of restructuring returned to claims not due, i.e. new initial balance of claim is formed.
- Refinancing of receivables - in justified cases it is possible to carry out refinancing of receivables from other creditors in order to improve the Group's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the group members have not implemented a partial write-offs during the restructuring, but in the coming period, the Group members will carefully consider the justification of such measure in the restructuring process if it is reasonable, in order to reduce the debtor's obligations to the real level that can be repaid from cash flow, which will certainly be analysed comparatively, and collateral position of the group with the screening of collection options, to enable the Bank to collect its claim to the maximum possible amount.
- converting debt into equity - also not done in the past, but in the coming period will be done by an individual assessment of the justification of implementing this measure, if it is the only possibility of conducting the restructuring of the Bank, i.e. the collection of receivables.

Those measures can be implemented individually or by implementing more measures depending on each individual restructuring process.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.5. Concentration Risk

The Bank 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.

Loans and receivables from banks and other financial institutions per sector and geograhic concentration of exposure

In thousand RSD

31.12.2016	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**74,137,624**	**3,270,768**	**3,118,847**	**-**	**-**	**5,167,534**	**884,462**	**874,924**	**-**	**-**
Housing Loans	37,271,767	1,543,567	1,391,937	-	-	1,992,031	278,496	46,773	-	-
Cash Loans	18,968,032	1,017,024	689,063	-	-	924,303	123,650	153,316	-	-
Agricultural Loans	6,081,950	9,903	102,631	-	-	467,403	-	14,863	-	-
Other	5,239,787	52,564	94,824	-	-	662,682	19,572	63,497	-	-
Micro Businesses	6,576,089	647,709	840,393	-	-	1,121,115	462,744	596,475	-	-
Corporate Clients	**64,243,239**	**6,881,172**	**6,235,717**	**-**	**-**	**32,412,891**	**617,583**	**579,363**	**-**	**67,485**
Agriculture	6,416,768	181,481	9,303	-	-	345,824	-	10,031	-	-
Manufacturing Industry	20,620,278	153,502	1,397,086	-	-	14,174,435	117,266	85,711	-	-
Electric Energy	83,227	5,593	222,513	-	-	-	-	-	-	-
Construction	1,786,210	278,123	140,040	-	-	1,351,493	309,459	-	-	-
Wholesale and Retail	23,274,624	642,396	966,054	-	-	5,149,413	155,333	421,760	-	-
Service Activities	8,098,887	816,056	304,920	-	-	2,884,345	332	61,862	-	-
Real Estate Activities	307,600	61,109	47,211	-	-	1,409,119	12,140	-	-	-
Other	3,655,645	4,742,911	3,148,590	-	-	7,098,261	23,053	-	-	67,485
Total	**138,380,863**	**10,151,940**	**9,354,564**	**-**	**-**	**37,580,425**	**1,502,045**	**1,454,287**	**-**	**67,485**
Due from banks	**11,156,376**	**5,608**	**141,067**	**8,759,324**	**23,156,425**	**-**	**-**	**-**	**-**	**309,874**

Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.5. Concentration Risk

Loans and receivables from banks and other financial institutions per sector and geograhic concentration of exposure

In thousand RSD

31.12.2015	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**69,213,832**	**2,793,623**	**3,109,882**	**-**	**-**	**5,639,921**	**841,770**	**817,944**	**-**	**-**
Housing Loans	36,468,473	1,477,815	1,350,353	-	-	1,855,829	258,892	63,897	-	-
Cash Loans	16,428,738	699,271	550,128	-	-	868,355	93,816	154,583	-	-
Agricultural Loans	5,203,709	199	161,815	-	-	468,476	1,190	11,691	-	-
Other	5,760,421	136,614	116,418	-	-	646,710	36,388	64,187	-	-
Micro Businesses	5,352,492	479,724	931,168	-	-	1,800,551	451,484	523,586	-	-
Corporate Clients	**81,898,665**	**4,373,186**	**6,248,485**	**-**	**-**	**41,054,364**	**571,382**	**910,825**	**-**	**82,247**
Agriculture	4,856,905	4	30,154	-	-	408,726	-	13,534	-	-
Manufacturing Industry	34,662,561	329,221	1,322,726	-	-	7,821,625	125,772	84,457	-	-
Electric Energy	3,581,791	-	313,457	-	-	12	-	174,960	-	-
Construction	1,848,843	367,683	120,770	-	-	1,417,299	88,983	-	-	-
Wholesale and Retail	23,599,328	630,543	623,428	-	-	6,079,969	163,211	576,936	-	-
Service Activities	7,407,125	1,382,190	136,494	-	-	2,946,890	181,459	60,937	-	-
Real Estate Activities	916,863	123	65,590	-	-	1,122,121	11,957	-	-	-
Other	5,025,248	1,663,422	3,635,867	-	-	21,257,721	-	-	-	82,247
Total	**151,112,497**	**7,166,809**	**9,358,367**	**-**	**-**	**46,694,285**	**1,413,152**	**1,728,769**	**-**	**82,247**
Due from banks	**3,349,982**	**4,512**	**40,796**	**10,465,705**	**3,988,041**	**105,463**	**-**	**-**	**-**	**294,297**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.6. Financial assets

In thousand RSD

	31.12.2016.		31.12.2015.	
	Gross	**Net**	**Gross**	**Net**
Financial Assets:	**140,590,950**	**140,425,071**	**132,976,274**	**132,878,235**
- at fair value through profit and loss, held for trading	247,862	247,862	855,811	855,811
- initially recognized through profit and loss, at fair value	-	-	-	-
- available for sale	139,889,920	139,808,210	131,913,489	131,913,119
- held to maturity	453,168	368,999	206,975	109,306
Changes in fair value which are subject of hedging	**-**	**-**	**-**	**-**
Receivables from financial derivatives, intended for hedging	**-**	**-**	**-**	**-**
Total	**140,590,950**	**140,425,071**	**132,976,275**	**132,878,236**

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 of Treasury bills and bonds issued by the Republic of Serbia, Republic of Srpska, 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) and on internally developed valuation models (mark to model) that used in instances when for certain financial instruments independent sources of market information are not available, and are based on discounting of cash flows with yield curve which respects market conditions. At the end of 2016, the Parent bank and Group members have improved internal methodology for valuation of securities (mark to model) available for sale.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals)

In next tables, the value of collateral is shown at the fair value of the collateral, so that the value of the collateral is shown only up to the amount of gross loans (in case the value of the collateral exceeds the loan amount). When the value of the collateral is lower than the value of gross placements shall disclose the value of the collateral.

The value of collateral and guarantees received in order to mitigate exposure to credit risk arising from loans to customers is shown in the following table:

Loans and receivables from clients covered with collaterals

In thousand RSD

31.12.2016	Impaired receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
By type of loan					
Housing Loans	39,604,776	26,907	-	1,356,856	40,988,538
Cash Loans	522,988	426,336	-	13,130,728	14,080,052
Agricultural Loans	3,302,753	11,014	65,270	2,524,586	5,903,623
Other	19,044	79,538	42	118,553	217,178
Micro Businesses	3,846,727	783,146	16,572	5,825,605	10,472,050
Total Retail	**47,296,287**	**1,326,942**	**81,884**	**22,956,328**	**71,661,442**
Large Corporate Clients	36,310,739	225,990	2,327,661	22,133,666	60,998,056
Middle Corporate Clients	12,087,178	633,427	247,530	13,129,278	26,097,412
Small Corporate Clients	5,430,112	524,260	22,502	6,560,446	12,537,320
State	529,607	18,859	2,274,486	4,685,422	7,508,373
Other	211,322	2,492	-	4,879,811	5,093,625
Corporate Clients	**54,568,958**	**1,405,027**	**4,872,180**	**51,388,623**	**112,234,787**
By Receivables Category					
Non-problematic receivables	**82,218,014**	**2,724,825**	**2,110,689**	**66,709,146**	**153,762,675**
Of which: restructured	3,072,874	5,563	-	14,216	3,092,654
Problematic receivables	**19,647,231**	**7,143**	**2,843,375**	**7,635,805**	**30,133,554**
Of which: restructured	14,795,275	4,337	1,892,942	6,072,255	22,764,808
Non-problematic receivables	**101,865,245**	**2,731,969**	**4,954,064**	**74,344,951**	**183,896,229**
Due from banks	**-**	**-**	**223,425**	**-**	**223,425**

*Other collaterals relate to pledges over goods, pledges over receivables, pledges over equipment, warranties.

Impaired receivables as at 31 December 2016 relate to loans and receivables of the Republic of Serbia, Ministry of Finance of Republic of Serbia which are not covered by collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals) (continued)

Loans and receivables from clients covered with collaterals

In thousand RSD

31.12.2015	Impaired receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
By type of loan					
Housing Loans	38,132,044	61,462	-	1,398,167	39,591,673
Cash Loans	398,360	342,006	-	8,568,493	9,308,859
Agricultural Loans	3,225,304	25,602	109,707	1,772,353	5,132,966
Other	140,442	52,751	-	161,602	354,795
Micro Businesses	4,115,842	612,511	9,328	4,833,437	9,571,118
Total Retail	**46,011,991**	**1,094,333**	**119,035**	**16,734,052**	**63,959,410**
Large Corporate Clients	41,756,029	207,481	2,375,203	26,330,221	70,668,933
Middle Corporate Clients	14,322,737	1,008,736	258,662	14,923,010	30,513,144
Small Corporate Clients	7,005,857	315,207	22,846	5,543,565	12,887,474
State	1,987,767	4,059	5,200,602	6,333,197	13,525,624
Other	401,552	9,966	-	2,055,784	2,467,302
Corporate Clients	**65,473,942**	**1,545,448**	**7,857,313**	**55,185,776**	**130,062,479**
By Receivables Category					
Non-problematic receivables	**89,906,672**	**2,427,967**	**6,665,239**	**58,194,895**	**157,194,773**
Of which: restructured	9,271,892	11,795	-	92,509	9,376,197
Problematic receivables	**21,579,261**	**211,814**	**1,311,108**	**13,724,932**	**36,827,116**
Of which: restructured	9,924,933	11,438	-	6,410,200	16,346,571
Non-problematic receivables	**111,485,933**	**2,639,781**	**7,976,347**	**71,919,827**	**194,021,889**
Due from banks	**-**	**53,267**	**-**	**-**	**53,267**

*Other collaterals relate to pledges over goods, pledges over receivables, pledges over equipment, warranties.

Impaired receivables as at 31 December 2016 relate to loans and receivables of the Republic of Serbia, Ministry of Finance of Republic of Serbia which are not covered by collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals) (continued)

Loans and receivables from clients covered with collaterals (continued)

The ratio of the loan amount and the assessed value of the property held as collateral is monitored by the range of Loan to Value Ratio - LTV ratio.

Overview of loans and receivables secured by collateral according to range of LTV ratio

In thousand RSD

	31. December 2016.	31. December 2015.
Less than 50%	31,218,723	31,405,020
50% - 70%	22,389,267	24,310,756
71% - 100%	24,893,963	23,584,675
101% - 150%	9,345,594	10,955,455
Greater than 150%	25,497,902	35,813,772
Total exposure	**113,345,450**	**126,069,677**
Average LTV	**65,98%**	**53,22%**

4.1.8. 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:

In thousand RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2015.	**734,141**	**3,946,428**	**107,018**	**465,001**	**5,252,588**
Acquisition	-	635,652	6,148	23,114	664,914
Sale	-	(363,998)	(180)	(3,455)	(367,633)
Transfer to invesment proprety	-	(128,724)	-	(16,791)	(145,516)
Transfer to assets held for sale	-	(70,454)	-	-	(70,454)
Transfer to fixed assets	(12,981)	(432,651)	-	(19,628)	(465,260)
Other	20,224	25,953	(13)	8,755	54,920
31.12.2016.	**741,384**	**3,612,206**	**112,973**	**456,997**	**4,923,560**
Impairment Allowances	**(418,130)**	**(1,359,698)**	**(73,773)**	**(151,796)**	**(2,003,398)**
Net	**323,254**	**2,252,508**	**39,200**	**305,201**	**2,920,162**

4. RISK MANAGEMENT (continued)

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.

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 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 and maintains 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.

Identifying liquidity risk 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 Group is performed through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

GAP analysis;
Ratio analysis; and
Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

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 above mentioned 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	
	2016.	2015.	2016.	2015.
As at December 31	2.88	2.71	2.55	2.46
Average for the period	2.97	3.09	2.55	2.78
Maximum for the period	3.56	3.93	3.12	3.57
Minimum for the period	1.91	1.90	1.69	1.68

During 2016 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	2016.	2015.
GAP up to 1 month / Total assets	Max (10%)	6.50%	5.06%
Cumulative GAP up to 3 months / Total assets	Max (20%)	9.61%	6.27%

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

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Maturity structure of monetary assets and monetary liabilities as of December 31, 2016

In thousand RSD

	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	61,919,102	-	-	-	-	61,919,102
Loans and receivables due from other banks and other financial institutions	38,699,907	3,416,190	76,258	1,003,021	21,305	43,216,681
Loans and receivables due from customers	10,316,061	10,959,317	40,699,071	64,663,910	39,762,649	166,401,008
Financial assets (securities)	4,860,113	13,506,392	47,165,297	73,000,869	1,892,400	140,425,071
Other assets	2,106,213	-	3,283	1,124,843	-	3,234,339
Total	**117,901,396**	**27,881,899**	**87,943,909**	**139,792,643**	**41,676,354**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,184,279	1,163,266	2,059,354	3,392,393	23,227	9,822,519
Deposits and other liabilities due to customers	229,259,980	17,393,516	68,559,020	27,635,316	2,288,127	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,681,633	-	1,047,493	-	-	5,729,126
Total	**237,125,892**	**18,556,782**	**77,844,257**	**31,027,709**	**2,311,354**	**366,865,994**
Net liquidity gap						
As of December 31, 2016	**(119,224,496)**	**9,325,117**	**10,099,652**	**108,764,934**	**39,365,000**	**48,330,207**

Maturity structure of monetary assets and monetary liabilities as of December 31, 2015

In thousand RSD

	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 other 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	74,134,060	2,791,281	132,878,236
Other assets	2,238,171	-	27,380	393,589	-	2,659,140
Total	**109,178,196**	**20,609,598**	**81,056,798**	**150,008,203**	**40,851,352**	**401,704,147**
Deposits and other liabilities due to banks, other financial institutions and 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)**	**102,598,686**	**36,555,809**	**52,854,430**

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

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

In near term, the Group manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

The Group's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof. The Group regularly tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2016

In thousand RSD

	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	61,919,102	-	-	-	-	61,919,102
Loans and receivables due from other banks and other financial institutions	38,901,607	3,419,090	85,447	1,011,270	21,349	43,438,763
Loans and receivables due from customers	11,138,192	12,519,359	46,418,317	79,772,254	53,638,769	203,486,891
Financial assets (securities)	4,955,229	13,990,776	48,656,473	75,367,455	2,068,820	145,038,753
Other assets	2,106,484	-	3,283	1,124,843	-	3,234,610
Total	**119,020,614**	**29,929,225**	**95,163,520**	**157,275,822**	**55,728,938**	**457,118,119**
	3,912,444	1,213,108	2,146,198	3,625,156	23,445	10,920,351
Deposits and other liabilities due to banks, other financial institutions and central bank	229,729,201	17,605,076	69,759,228	28,702,591	2,760,998	348,557,094
Deposits and other liabilities due to customers	-	-	6,463,613	-	-	6,463,613
Subordinated liabilities	4,681,636	-	1,047,493	-	-	5,729,129
Total	**238,323,281**	**18,818,184**	**79,416,532**	**32,327,747**	**2,784,443**	**371,670,187**
Net liquidity gap						
As of December 31, 2016	**(119,302,667)**	**11,111,041**	**15,746,988**	**124,948,075**	**52,944,495**	**85,447,932**

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2015

In thousand RSD

	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 other 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	77,843,305	2,945,795	140,366,231
Other assets	2,238,171	-	27,380	393,589	-	2,659,140
Total	**110,334,317**	**23,385,475**	**90,229,530**	**174,767,736**	**51,914,323**	**450,631,381**
	2,751,935	1,351,379	4,759,157	9,622,776	1,915,793	20,401,040
Deposits and other liabilities due to banks, other financial institutions and central bank	177,972,937	23,130,495	86,680,782	34,815,170	2,772,016	325,371,400
Deposits and other liabilities due to customers	-	-	-	6,663,977	-	6,663,977
Subordinated 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)**	**123,665,814**	**47,226,514**	**93,526,559**

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

Market Risk

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 held for trading or to hedge other financial instruments that are maintained in the trading book.

The Group 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, whose decisions can impact the Group's exposure to this risk.

4. RISK MANAGEMENT (continued)

4.3. Interest Risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Group's 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	2016.	2015.
Relative GAP	Max 15%	1.02%	1.15%
Mismatch ratio	0.75 – 1.25	1.01	1.01

During 2016 the Group's interest rate risk ratios were within internally prescribed limits.

Compliance with internally defined limits of economic value of equity:

	2016.	2015.
As at December 31	3.64%	5.18%
Average for the year	4.40%	7.27%
Maximum for the year	5.16%	9.35%
Minimum for the year	3.64%	5.18%
Limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

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

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2016:

In thousand RSD

	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	23,524,673	-	-	-	-	23,524,673	38,394,429	61,919,102
Loans and receivables due from banks and other financial institutions	35,741,374	3,416,217	76,232	202,204	34,637	39,470,664	3,746,017	43,216,681
Loans and receivables due from customers	59,600,330	14,219,797	42,293,851	35,395,821	14,747,903	166,257,702	143,306	166,401,008
Financial assets (securities)	12,391,581	12,256,667	40,730,939	72,860,863	1,937,183	140,177,233	247,838	140,425,071
Other assets	-	-	-	-	-		3,234,339	3,234,339
Total	**131,257,958**	**29,892,681**	**83,101,022**	**108,458,888**	**16,719,723**	**369,430,272**	**45,765,929**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,257,587	4,270,624	1,702,744	560,589	23,228	9,814,772	7,747	9,822,519
Deposits and other liabilities due to customers	233,151,725	20,049,705	65,964,760	22,982,847	1,340,515	343,489,552	1,646,407	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,677,316	5,729,126
Total	**236.409.312**	**24.320.329**	**73.845.894**	**23.543.436**	**1.363.743**	**359.482.714**	**7.383.280**	**366.865.994**
Interest rate GAP -At December 31, 2016	**(105.151.354)**	**5.572.352**	**9.255.128**	**84.915.452**	**15.355.980**	**9.947.558**	**38.382.649**	**48.330.207**

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2015:

In thousand RSD

	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	4,374,306	**131,204,265**	1,673,971	**132,878,236**
Other assets	-	-	-	-	-	**-**	2,659,140	**2,659,140**
Total	**125,463,823**	**44,249,961**	**72,232,021**	**90,525,357**	**18,224,840**	**350,696,002**	**51,008,145**	**401,407,147**
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	**(64,121,992)**	**17,891,257**	**(23,058,185)**	**61,628,577**	**17,030,297**	**9,369,954**	**43,484,476**	**52,854,430**

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

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

The Group's 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.

The Risk of Changes in Interest Rates

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

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

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

In thousand RSD

	Parallel increases by 100 b.p.	**Parallel decreases by 100 b.p.**
2016		
As at December 31	506,708	(506,708)
Average for the year	349,565	(349,565)
Maximum for the year	506,708	(506,708)
Minimum for the year	192,421	(192,421)
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)

4. RISK MANAGEMENT (continued)

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 Asset and Liability Management Committee has the most significant role therein as well as other competent boards/committees, whose decisions can impact the Group's exposure to this risk.

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

In identifying currency risks, 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.

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:

	2016.	2015.
Total currency risk balance	6,153,467	6,126,044
Currency risk ratio	11,86%	13,77%,
Legally-defined limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Currency Risk (continued)

Breakdown of Monetary Assets and Monetary Liabilities per currencies as of December 31, 2016

In thousand RSD

	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	32,796,322	231,969	654,526	4,614,679	**38,297,496**	-	-	-	23,621,606	**61,919,102**
Loans and receivables due from banks and other financial institutions	11,649,378	2,637,496	2,778,228	2,114,800	**19,179,902**	-	-	-	24,036,779	**43,216,681**
Loans and receivables due from customers	15,369,043	28	-	2,638,852	**18,007,923**	107,658,995	-	4,983,042	35,751,048	**166,401,008**
Financial assets (securities)	83,889,715	9,901,979	1,818,930	185,300	**95,795,924**	1,073,072	-	-	43,556,075	**140,425,071**
Other assets	851,742	210,122	321	17,732	**1,079,917**	6	-	-	2,154,416	**3,234,339**
Total	**144,556,200**	**12,981,594**	**5,252,005**	**9,571,363**	**172,361,162**	**108,732,073**	**-**	**4,983,042**	**129,119,924**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,824,005	101,829	29,893	199,158	7,154,885	2,114,538	-	-	553,096	**9,822,519**
Deposits and other liabilities due to customers	228,737,756	11,712,026	10,222,561	5,588,114	256,260,457	6,229,574	22,325	-	82,623,603	**345,135,959**
Subordinated liabilities	6,178,390	-	-	-	6,178,390	-	-	-	-	**6,178,390**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,217,490	546,087	47,482	81,447	1,892,506	-	-	-	3,836,620	**5,729,126**
Total	**242,957,641**	**12,359,942**	**10,299,936**	**5,868,719**	**271,486,238**	**8,344,112**	**22,325**	**-**	**87,013,319**	**366,865,994**
Net Currency Position, 31 December 2016	**(98,401,441)**	**621,652**	**(5,047,931)**	**3,702,644**	**(99,125,076)**	**100,387,961**	**(22,325)**	**4,983,042**	**42,106,605**	**48,330,207**

4. RISK MANAGEMENT (continued)

4.4. Currency Risk (continued)

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

In thousand RSD

	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	114,428,917	263	5,390,891	40,405,784	**179,422,656**
Financial assets (securities)	79,793,106	7,478,087	1,665,663	546,168	89,483,024	446,242	-	-	42,948,970	**132,878,236**
Other assets	418,919	92,698	593	27,571	539,781	14	-	-	2,119,345	**2,659,140**
Total	**140,015,103**	**11,675,196**	**5,151,605**	**8,610,643**	**165,452,547**	**114,875,173**	**263**	**5,393,075**	**115,985,272**	**401,704,147**
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**
Deposits and other liabilities due to banks, other financial institutions and the central bank	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, 31 December 2015	**(107,707,877)**	**684,998**	**(5,280,143)**	**3,874,799**	**(108,428,223)**	**106,286,621**	**(5,715)**	**5,390,891**	**49,610,721**	**52,854,430**

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 Bank 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 2016 and 2015 is presented in the table below:

In thousand RSD

	As of December 31	Average	Maximum	Minimum
2016.				
Currency risk	17,477	31,003	79,538	10,576
2015.				
Currency risk	55,129	36,590	187,775	10,250

4.6. Operational Risk

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

Measurement and assessment of operational risk at the Group is done through quantitative and/or qualitative assessment of identified operational risk. The Bank member of 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 exposure to operational risk.

4. RISK MANAGEMENT (continued)

4.6. Operational Risk (continued)

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

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

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

4.7. Investment Risks

The Group's investment risk relates to the risk of investing in other entities and investment properties. 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:

- 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.

Defined exposure limits to a single entity or a group of related entities also relate to entities associated to the Group.

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

4. RISK MANAGEMENT (continued)

4.9. Country Risk

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.10. Fair Value of Financial Assets and Liabilities

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

In thousand RSD

	31.12.2016					31.12.2015	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	166,401,008	163,877,512	-	-	163,877,512	179,422,656	178,509,257
Financial assets held to maturity	368,999	368,999	-	-	368,999	109,306	109,306
Financial Liabilities							
Deposits and other liabilities due to customers	345,135,959	345,083,711	-	-	345,083,711	319,334,622	319,099,716

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 would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the Group's members 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.

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4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousand RSD

31.12.2016.	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	247,862	-	-	247,862
Securities available for sale (RSD)	2,038,226	43,826,167	-	45,864,393
Securities available for sale (FC)	1,416,781	92,177,443	431,303	94,025,527
Total	**3,702,869**	**136,003,610**	**431,303**	**140,137,782**

In thousand RSD

31.12.2015.	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)	1,937,561	42,487,488	-	44,425,049
Securities available for sale (FC)	325,803	85,816,599	1,346,037	87,488,439
Total	**3,119,176**	**128,304,087**	**1,346,037**	**132,769,300**

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. RISK MANAGEMENT (continued)

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 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 of the dividend policy.

The Bank's Group 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. Capital requirement for foreign exchange risk at the level of the banking group is equal to the sum of the individual capital requirements for this risk, all members of the banking group, in which the sum of the net open foreign currency position and absolute open position in gold exceeds 2% of their capital.

Capital adequacy ratio		**In thousand RSD**
	2016.	**2015.**
Core capital	47,588,844	40,641,634
Supplementary capital	4,425,745	4,034,778
Deductible items	(121,681)	(190,945)
Capital	**51,892,908**	**44,485,467**
Credit risk-weighted assets	172,570,019	166,568,209
Operational risk exposure	23,173,092	22,226,158
Foreign currency risk exposure	2,720,463	4,167,685
Capital adequacy ratio (minimum 12%)	**26.15%**	**23.05%**

In the course of 2016 capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

4. RISK MANAGEMENT (continued)

4.11. Capital Management (continued)

Through its Capital Management Strategy and Capital Management Plan, the 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 Group is or may be exposed to;
- it provides adequate level of internally available capital according to the Group's risk profile,
- it is included in the 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; 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 reporting period. Estimates and underlying assumptions are continually reviewed and are based on previous experience, as well as on various information available on the day of financial statements preparation, believed to be real and 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(i) (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(i) (vi). For financial instruments that have been traded 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(i) (vii) and 3(n).

Valuation of Financial Instruments

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

5. USE OF ESTIMATES (continued)

Critical Accounting Judgments in Applying the Group's Accounting Policies

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 Bank determines fair values using valuation techniques.

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

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

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

6. SEGMENT REPORTING

6.1. Strategic segment reporting – Group members

The Parent Bank monitors and discloses business operations by segments using two report models:

- Strategic segment reporting - Group members (Note 6.1.) and
- Operating segment reporting- business lines (Note 6.2.).

Information about the results of each reporting segment are shown below.

The Group has four members which represent strategic organizational units:

Komercijalna banka a.d., Beograd, Serbia, the Parent Bank	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d., Budva, Montenegro	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Društvo za upravljanje investicionim fondom a.d., Beograd, Serbia	Includes management of investment funds operations

The Parent Bank monitors and discloses operations by strategic segments – Group members, within its consolidated financial statements. The Group performs most of its operations in the Republic of Serbia. Subsidiaries are not material to the individual financial statements of the Parent Bank.

The Parent Bank total balance amount to 92.6% of the total balance of the consolidated balance sheet (2015: 93.0%).

Total balance of the Komercijalna banka a.d., Budva, amount to 3.1% of the total consolidated assets (2015: 3.0%), Komercijalna banka a.d., Banja Luka, 4.3% (2015: 4.0%) and KomBank INVEST 0.002% (2015: 0.003%).

The result of a strategic segment is used to measure operating performance, since the Parent Bank's management believes that this information is most relevant for evaluating the results of certain strategic segment in comparison with other legal entities operating within these activities on the local market.

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

Prices in commercial transactions between strategic segments are determined on a market basis.

All mutual transactions were eliminated from the balance sheet through consolidation in the amount of RSD 6,387,271 thousand (2015: RSD 7,048,858 thousand). Revenues were eliminated from the income statement in the amount of RSD 35,729 thousand (2015: RSD 35,586 thousand), while the elimination of the expenses amounted to RSD 19,467 thousand (2015: RSD 26,093 thousand).

Balance sheet for the year 2016

In RSD '000

Aggregated unconsolidated balance sheet	Amount of balance sheet consolidation	Consolidated balance sheet
435,214,879	6,387,271	428.827.608
cash/liabilities	723,575	
placements/liabilities	182,809	
stakes/capital	5,480,888	

Income statement for the year 2016

In RSD '000

Aggregated unconsolidated profit in the income statement (before tax)	Amount of income statement consolidation		Consolidated profit (before profit)
	income	expenses	
(6,549,948)	35,729	19,467	(6,533,686)
interest	5,110	5,110	
fees	9,377	9,377	
exchange difference (reclassified to equity)	21,242	4,980	

Balance sheet for the year 2015

In RSD '000

Aggregated unconsolidated balance sheet	Amount of balance sheet consolidation	Consolidated balance sheet
421,927,391	7,048,858	414,878,533
cash/liabilities	980,087	
placements/liabilities	587,883	
stakes/capital	5,480,888	

Balance sheet for the year 2015

In RSD '000

Aggregated unconsolidated profit in the income statement (before tax)	Amount of income statement consolidation		Consolidated balance sheet
	income	expenses	
(7,141,324)	35,586	26,093	(7,131,831)
interest	8,968	8,968	
fees	7,996	7,996	
exchange difference (reclassified to equity)	18,622	9,129	

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

A. BALANCE SHEET – CONSOLIDATED as at December 31st 2016

For each of the strategic organizational units, the management of the Parent Bank controls the internal management reports on at least a quarterly basis. Below is an overview of the activities of the strategic segments of the consolidated balance sheet and consolidated income statement for the 2016 and 2015:

In RSD '000

	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	55,153,209	2,421,787	4,344,106	-	61,919,102
Financial assets at fair value through profit and loss, held for trading	242,920	-	-	4,942	247,862
Financial assets available for sale	136,123,853	2,627,938	1,056,419	-	139,808,210
Financial assets held to maturity	-	368,999	-	-	368,999
Loans and receivables due from banks and other financial institutions	40,418,884	490,798	2,306,999	-	43,216,681
Loans and receivables due from customers	150,411,409	5,860,668	10,128,931	-	166,401,008
Intangible assets	362,507	12,826	19,213	-	394,546
Property, plant and equipment	5,856,458	347,360	47,319	50	6,251,187
Investment property	2,217,816	118,842	271,393	-	2,608,051
Current tax assets	-	-	7,283	-	7,283
Non-current assets held for sale and assets from discontinued operations	183,170	-	166,353	-	349,523
Other assets	6,252,584	963,105	37,976	1,491	7,255,156
TOTAL ASSETS	**387,222,810**	**13,212,323**	**18,385,992**	**6,483**	**428,827,608**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

A. BALANCE SHEET – CONSOLIDATED as at December 31st 2016 (continued)

In RSD '000

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to banks, other financial institutions and the Central bank	7,111,380	256,639	2,454,500	-	9,822,519
Deposits and other liabilities due to customers	322,621,360	10,726,250	11,788,349	-	345,135,959
Subordinated liabilities	6,178,390	-	-	-	6,178,390
Provisions	1,787,294	204,768	28,647	798	2,021,507
Current tax liabilities	-	7,543	746	738	9,027
Deferred tax liabilities	23,592	25,451	4,414	-	53,457
Other liabilities	6,147,567	79,092	86,251	1,419	6,314,329
Total liabilities	**343,869,583**	**11,299,743**	**14,362,907**	**2,955**	**369,535,188**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(5,584,250)	(953,509)	26,197	27,191	(6,502,689)
Reserves	25,026,243	563,736	170,665	(151)	25,760,493
Non-controlling shares	-	-	66	-	66
Total equity	**59,476,543**	**(389,773)**	**198,928**	**8,722**	**59,292,420**
Total liabilities and equity	**403,346,126**	**10,909,970**	**14,559,835**	**11,677**	**428.827.608**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

B. BALANCE SHEET – CONSOLIDATED as at December 31st 2015

In RSD '000

	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	128,756,408	1,937,561	1,219,150	-	131,913,119
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	**387,378,734**	**12,497,800**	**16,469,869**	**115,155**	**416,461,558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

B. BALANCE SHEET – CONSOLIDATED as at December 31st 2015 (continued)

In RSD '000

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
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	329,258	9,433	2,556	-	341,247
Other liabilities	4,920,368	44,223	54,275	1,100	5,019,966
Total liabilities	**329,614,109**	**10,036,440**	**12,114,765**	**1,842**	**351,767,156**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(6,636,639)	47,569	(158,851)	(18,318)	(6,766,239)
Reserves	30,516,155	598,854	311,138	(121)	31,426,026
Non-controlling shares	-	-	65	-	65
Total equity	**63,914,066**	**646,423**	**152,352**	**(18,439)**	**64,694,402**
Total liabilities and equity	**393,528,175**	**10,682,863**	**12,267,117**	**(16,597)**	**416,461,558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

C. INCOME STATEMENT – CONSOLIDATED for the year ended on December 31st 2016

In RSD '000

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	16,683,969	529,622	719,495	1,733	17,934,819
Interest expenses	(3,226,337)	(98,103)	(154,046)	-	(3,478,486)
Net interest income	**13,457,632**	**431,519**	**565,449**	**1,733**	**14,456,333**
Fee and commission income	6,245,829	148,842	231,988	16,630	6,643,289
Fee and commission expenses	(1,432,220)	(44,378)	(72,861)	(307)	(1,549,766)
Net fee and commission income	**4,813,609**	**104,464**	**159,127**	**16,323**	**5,093,523**
Net gains on the financial assets held for trading	70,478	-	-	5,845	76,323
Net gains on the financial assets available for sale	69,062	83,562	18,778	23,166	194,568
Net foreign exchange gain/loss and currency clause effects	11,662	(2,127)	(3,450)	(9)	6,076
Other operating income	578,378	8,561	26,167	13	613,119
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(12,038,510)	(995,139)	(45,848)	-	(13,079,497)
Total operating income	**6,962,311**	**(369,160)**	**720,223**	**47,071**	**7,360,445**
Staff costs	(4,498,212)	(254,657)	(294,797)	(11,803)	(5,059,469)
Depreciation and amortization charge	(666,025)	(28,803)	(34,861)	(37)	(729,726)
Other expenses	(7,294,544)	(459,196)	(345,414)	(5,782)	(8,104,936)
(Loss)/Profit before taxes	**(5,496,470)**	**(1,111,816)**	**45,151**	**29,449**	**(6,533,686)**
Income tax	-	(7,543)	(12,921)	(854)	(21,318)
Gain on deferred taxes	314,453	1,265	-	-	315,718
Loss on deferred taxes	-	(1,844)	-	-	(1,844)
Profit/(loss) for the year	**(5,182,017)**	**(1,119,938)**	**32,230**	**28,595**	**(6,241,130)**

6. SEGMENT REPORTING (continued)

6.1. Strategic segment reporting – Group members (continued)

D. INCOME STATEMENT – CONSOLIDATED for the year ended on December 31st 2015

In RSD '000

	Комерцијална банка а.д. Београд	Комерцијална банка а.д. Будва	Комерцијална банка а.д. Бања Лука	КомБанк ИНВЕСТ а.д. Београд	Укупно
Interest income	19,085,626	647,408	786,062	12,135	20,531,231
Interest expenses	(5,326,488)	(169,238)	(196,132)	-	(5,691,858)
Net interest income	**13,759,138**	**478,170**	**589,930**	**12,135**	**14,839,373**
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)
Укупан пословни приход	**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	**(6,168,623)**	**(602,805)**	**(126,295)**	**4,165**	**(6,893,558)**
Income tax	-	(685)	(21,384)	(142)	(22,211)
Gain on deferred taxes	114,554	265	-	-	114,819
Loss on deferred taxes	(27)	(76)	-	(5)	(108)
Profit/(loss) for the year	**(6,054,096)**	**(603,301)**	**(147,679)**	**4,018**	**(6,801,058)**

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

The Parent Bank has three operating segments:

- Operations with corporate sector of Parent Bank – Includes loans, deposits and other transactions with legal entities other than banks,
- Operations with retail sector of Parent Bank – Includes loans, deposits and other transactions with retail customers, micro businesses, entrepreneurs and agriculture clients, and
- Investment banking and interbank operations of Parent Bank – Includes transactions with securities and other financial instruments, as well as transactions with banks.

Group members operate as independent entities on their local markets. The results of operations of the Group members are presented in Note 6.1.

Bearing in mind that the Parent Bank accounts for more than 92% of consolidated total assets, for the purposes of reporting by operating segments, it has conducted the changes in methodology of representing business results by segment at the Group level for the years 2016 and 2015 Changing the methodology assumes that the business of dependent Group members is shown in one segment (subsidiaries) and the operations of the Parent Bank (as the dominant member of the Group) is shown separately for the segments of retail, corporate and investment banking and interbank operations. Column "adjustments and consolidation" separately shows amounts for the positions that are consolidated, and the amount of share impairment of the Parent Bank in subsidiary banks.

When considering profitability / results of each segment, other than income and expenses generated from operations with clients, income and expenses from internal relations calculated using transfer prices that are determined based on market prices (net income/expenses from internal relations), have to be included, as well as part of net income / expenses which are reported from operations with subsidiaries by Parent Bank.

Impairment losses had a decisive impact on the result in 2016, which amounted to RSD 13,079,497 thousand (of which the Corporate segment accounted for RSD 11,021,735 thousand).

At the height of result before indirect operating expenses in 2016 significant impact had net losses due to a changes in valuation of fixed assets and investment properties, so the Group recorded a loss from other income and expenses in the amount of RSD 646.899 thousand for the year 2016

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

When creating segment reports, operating expenses are divided into direct operating expenses (directly controlled by business segments or directly attributable to the business segments) and indirect operating expenses (the amount of these costs is not under the direct control segments or there is not a direct connection to the business segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at the Bank level amounted to RSD 8,235,975 thousand and make up 66.6% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

To the segment of retail banking refer the amount of RSD 5,250,911 thousand of direct costs (63.8% of total direct costs) as a result of large business network and number of employees in the retail sector.

In fiscal 2016, despite a stable level of net interest income and fees, the Bank recorded a negative result before tax in the amount of 6,533,686 thousand RSD as a result of already mentioned high amount of impairment losses.

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

Operating segment report for 2016 is provided below:

In RSD '000

31.12.2016	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6.622.978	3.806.948	6.254.043	-	1.250.850	-	17.934.819
Interest expenses	(1.680.595)	(409.129)	(1.136.613)	-	(252.149)	-	(3.478.486)
Net interest income	4.942.383	3.397.819	5.117.430	-	998.701		14.456.333
Net income/expenses from related party transactions	(434.154)	(1.166.544)	1.605.800	-	(5.102)	-	-
Net fees	3.040.383	1.335.521	437.705	-	279.914	-	5.093.523
Net fees from related party transactions	-	-	3.705	-	(3.705)	-	-
Profit before impairment allowance	7.548.612	3.566.796	7.164.640	-	1.269.808	-	19.549.856
Net gains/losses from impairment allowance	(858.376)	(11.021.735)	(158.399)	-	(1.040.987)	-	(13.079.497)
Subsidiaries imapairment allowance	-	-	(2.869.029)	-	-	2.869.029	-
Profit before operating expenses	6.690.236	(7.454.939)	4.137.212	-	228.821	2.869.029	6.470.359
Direct operating expenses	(5.250.911)	(1.841.981)	(292.810)	-	(850.273)	-	(8.235.975)
Net exchange rate gain/(loss)	-	-	11.662	-	(5.586)	-	6.076
Net exchange difference from related parties transactions	-	-	(20.944)	-	4.682	16.262	-
Net other income/(expenses)	(18.075)	(555.513)	(80.417)	-	7.106	-	(646.899)
Profit before indirect operating expenses	1.421.250	(9.852.433)	3.754.703	-	(615.250)	2.885.291	(2.406.439)
Indirect operating expenses	(2.020.778)	(1.340.184)	(340.194)	-	(426.091)	-	(4.127.247)
Profit before taxes	**(599.528)**	**(11.192.617)**	**3.414.509**	**-**	**(1.041.341)**	**2.885.291**	**(6.533.686)**
Assets per segment							
Cash and cash equivalents	-	-	55.153.209	-	6.765.893	-	61.919.102
Cash from related parties transactions	-	-	-	-	723.575	(723.575)	-
Placements with banks	-	-	40.418.884	-	2.797.797	-	43.216.681
Placements with banks from related parties transactions	-	-	182.530	-	6	(182.536)	-
Placements with customers	75.323.551	75.087.858	-	-	15.989.599	-	166.401.008
Investment securities	-	-	136.366.773	-	4.058.298	-	140.425.071
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	14.872.536	1.993.210	-	16.865.746
Other from related parties transactions	-	-	-	270	2	(272)	-
	75.323.551	**75.087.858**	**234.733.255**	**14.872.806**	**32.328.380**	**(3.518.242)**	**428.827.608**
Liabilities per segment							
Liabilities to banks	-	-	7.111.380	-	2.711.139	-	9.822.519
Liabilities to banks from related parties transactions	-	-	723.581	-	182.530	(906.111)	-
Liabilities to customers	232.633.347	78.399.262	11.588.751	-	22.514.599	-	345.135.959
Subordinated liabilities	-	-	6.178.390	-	-	-	6.178.390
Other	-	-	-	7.958.453	439.867	-	8.398.320
Other from related parties transactions	-	-	-	2	270	(272)	-
	232.633.347	**78.399.262**	**25.602.102**	**7.958.455**	**25.848.405**	**(906.383)**	**369.535.188**

* Loans to micro clients are presented within Retail banking segment

** Indirect operating expenses refer to expenses that are not controlled by the business segments

6. SEGMENT REPORTING (continued)

6.2. Operating segment reports - business lines

Operating segment report for 2015 is provided below:

In RSD '000

31.12.2015	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	7.139.614	5.629.550	6.316.462	-	1.445.605	-	20.531.231
Interest expenses	(2.888.157)	(792.233)	(1.646.098)	-	(365.370)	-	(5.691.858)
Net interest income	4.251.457	4.837.317	4.670.364	-	1.080.235		14.839.373
Net income/expenses from related party transactions	418.841	(2.990.460)	2.580.563	-	(8.944)	-	-
Net fees	2.856.272	1.337.960	703.299	-	292.751	-	5.190.282
Net fees from related party transactions	-	-	2.416	-	(2.416)	-	-
Profit before impairment allowance	7.526.570	3.184.817	7.956.642	-	1.361.626		20.029.655
Net gains/losses from impairment allowance	(369.263)	(12.631.988)	(7.275)	-	(799.054)	-	(13.807.580)
Subsidiaries imapairment allowance	7.157.307	(9.447.171)	7.949.367	-	562.572		6.222.075
Profit before operating expenses	(5.633.246)	(1.717.832)	(294.841)	-	(1.301.215)	-	(8.947.134)
Direct operating expenses	-	-	5.183	-	(11.549)	-	(6.366)
Net exchange rate gain/(loss)	-	-	(18.622)	-	9.129	9.493	-
Net exchange difference from related parties transactions	(153.080)	(872.718)	3.358	-	550.589	-	(471.851)
Net other income/(expenses)	1.370.981	(12.037.721)	7.644.445	-	(190.474)	9.493	(3.203.276)
Profit before indirect operating expenses	(1.726.360)	(1.107.322)	(319.908)	-	(536.692)	-	(3.690.282)
Profit before taxes	**(355.379)**	**(13.145.043)**	**7.324.537**	**-**	**(727.166)**	**9.493**	**(6.893.558)**
Assets per segment							
Cash and cash equivalents	-	-	63.523.715	-	5.371.503	-	68.895.218
Cash from related parties transactions	-	-	-	-	980.087	(980.087)	-
Placements with banks	-	-	16.263.827	-	1.585.070	-	17.848.897
Placements with banks from related parties transactions	-	-	580.173	-	7.632	(587.805)	-
Placements with customers	70.750.545	91.992.020	-	-	16.680.091	-	179.422.656
Investment securities	-	-	129.607.464	-	3.270.772	-	132.878.236
Investments in subsidiaries	-	-	5.480.888	-	-	(5.480.888)	-
Other	-	-	-	15.241.164	2.175.387	-	17.416.551
Other from related parties transactions	-	-	-	78	-	(78)	-
	70.750.545	**91.992.020**	**215.456.067**	**15.241.242**	**30.070.542**	**(7.048.858)**	**416.461.558**
Liabilities per segment							
Liabilities to banks	-	-	16.171.598	-	2.597.128	-	18.768.726
Liabilities to banks from related parties transactions	-	-	987.719	-	580.173	(1.567.892)	-
Liabilities to customers	221.167.282	55.719.125	23.119.496	-	19.328.719	-	319.334.622
Subordinated liabilities	-	-	6.077.962	-	-	-	6.077.962
Other	-	-	-	7.358.646	227.200	-	7.585.846
Other from related parties transactions	-	-	-	-	78	(78)	-
	221.167.282	**55.719.125**	**46.356.775**	**7.358.646**	**22.733.298**	**(1.567.970)**	**351.767.156**

* Loans to micro clients are presented within Retail banking segment
** Indirect operating expenses refer to expenses that are not controlled by the business segments

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

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

(ii) Assets for which fair value approximates carrying value

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

(iii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates 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. НЕТО ПРИХОДИ ОД КАМАТА

Net interest income includes:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Loans and receivables due from banks	374,300	153,987
Loans and receivables due from customers	11,532,107	14,054,825
Central Bank	475,643	667,426
Investment securities	5,552,769	5,654,993
Total interest income	**17,934,819**	**20,531,231**
Deposits from and liabilities due to banks	301,021	221,779
Deposits from and liabilities due to customers	2,393,200	4,365,345
Borrowings received	784,265	1,104,734
Total interest expenses	**3,478,486**	**5,691,858**
Net interest income	**14,456,333**	**14,839,373**

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

In accordance with the requirements of IAS 8 in the part of the disclosure of the previous year, comparative data presented last year at the position of interest income from investment securities have been adjusted in the amount of RSD 238,273 thousand. The total net operating income and loss before and after tax have been adjusted for the same amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	In RSD '000 For the year ended 31 December 2016	2015
Fees and commission income in domestic currency		
Payment transfer operations	3,050,088	2,880,097
Fees on issued loans and guarantees - retail customers	27,006	21,407
Fees on issued loans and guarantees - corporate customers	183,068	205,396
Fees on purchase and sale of foreign currencies	453,082	617,338
Brokerage and custody fees	62,001	78,483
Fees arising from card operations	1,540,401	1,348,531
Credit Bureau processing fees	88,011	88,021
Other banking services	617,090	603,283
	6,020,747	**5,842,556**
Fees and commission income in foreign currencies		
Payment transfer operations	309,446	305,185
Fees on issued loans and guarantees - corporate customers	29,804	30,078
Brokerage and custody fees	9,011	7,353
Fees arising from card operations	176,070	109,585
Other banking services	98,211	96,636
	622,542	**548,837**
	6,643,289	**6,391,393**
Fee and commission expenses in domestic currency		
Payment transfer operations	(121,816)	(162,025)
Fees arising on purchase and sale of foreign currencies	(33,396)	(66,890)
Fees arising from card operations	(520,990)	(334,689)
Credit Bureau processing fees	(72,978)	(73,013)
Other banking services	(146,738)	(129,859)
	(895,918)	**(766,476)**
Fee and commission expenses in foreign currencies		
Payment transfer operations	(83,444)	(82,268)
Fees arising from card operations	(351,700)	(300,213)
Other banking services	(218,704)	(52,154)
	(653,848)	**(434,635)**
	(1,549,766)	**(1,201,111)**
Net fee and commission income	**5,093,523**	**5,190,282**

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Gains on the fair value adjustment of securities – bonds	-	2,055
Gains on the fair value adjustment of securities – investment units	3,141	9,640
Gains on the fair value adjustment of securities – shares	-	952
Gains on the sales of securities at fair value through profit and loss	75,897	5,809
	79,038	**18,456**
Losses on the fair value adjustment of securities – shares	-	(52)
Losses on the fair value adjustment of securities – bonds	-	(11,217)
Losses on the fair value adjustment of securities – investment units	(34)	-
Losses on the sales of securities and other financial assets held for trading	(2,681)	(2,923)
	(2,715)	**(14,192)**
Net gains on the financial assets held for trading	**76,323**	**4,264**

11. NET GAINS/LOSSES ON FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Gains on the sale of securities available for sale	195,433	72,153
Losses on the sale of securities available for sale	(865)	(52,819)
Net gains on the financial assets available for sale	**194,568**	**19,334**

Gains on the sale of securities available for sale of RSD 195,433 thousand relate to the gains from the sale of old foreign currency savings bonds (2016 series) in the amount of RSD 13,925 thousand, the Republic of Serbia Treasury bills in the amount of RSD 18,490 thousand, the Republic of Serbia bonds in domestic currency in the amount of RSD 4,193 thousand and bonds in foreign currencies RSD 128,109 thousand, as well as foreign banks bonds in the amount of RSD 30,716 thousand.

Losses on securities available for sale in the amount of RSD 865 thousand relate to losses from the sale of bonds of the Republic of Serbia in the amount of RSD 860 thousand and the banks' bonds in the amount of RSD 5 thousand.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

		In RSD '000 For the year ended 31 December
	2016	2015
Positive currency clause effects	2,510,561	3,911,977
Positive currency clause effects – value adjustment of securities	13,227	40,516
Foreign exchange gains – value adjustment of securities	13,173	184,665
Positive currency clause effects – retail customers	1,281,370	2,935,203
Foreign exchange gains	3,988,051	4,455,767
	7,806,382	**11,528,128**
Negative currency clause effects	(1,437,016)	(3,403,198)
Negative currency clause effects – value adjustment of securities	(5,290)	(37,868)
Negative currency clause effects – value adjustment of liabilities	(37,809)	(228,029)
Negative currency clause effects – retail customers	(616,606)	(2,041,942)
Foreign exchange losses	(5,703,585)	(5,823,457)
	(7,800,306)	**(11,534,494)**
Net expense	**6,076**	**(6,366)**

13. OTHER OPERATING INCOME

a) Other operating income relates to:

		In RSD '000 For the year ended 31 December
	2016	2015
Other income from operations	173,685	170,913
Other income	400,856	300,124
Gains on the reversal of provisions for the litigations	1,020	-
Gains on the valuation of property and equipment	32,415	-
Total	**607,976**	**471,037**

13. OTHER OPERATING INCOME (continued)

Within the other income from operations, the largest amounts relate to: income arising from lease of properties in the amount of RSD 98,854 thousand, of which RSD 74,929 thousand is income from leasing of properties for business purposes, the income from collection of court costs the amount of RSD 27,928 thousand, refunds of municipal costs in the amount of RSD 19,515 thousand, charged costs of business mobile phones in the amount of RSD 9,028 thousand and collection of subsequent damages from insurance companies in the amount of RSD 6,387 thousand.

During 2016 the Parent Bank has received dividends from investments and shares for trading in the amount of RSD 15,712 thousand (2015: RSD 4,927 thousand) and and those form part of the position of other income.

Within the other income in 2016, the most significant item is the Parent bank's income from:

- The reversal of liabilities in the amount of RSD 127,012 thousand, on the basis of revenue recognition of materially insignificant funds on clients' bank accounts, which on December 31, 2016 fulfilled requirements prescribed by decision of Executive Board,
- The reversal of liabilities on the basis of overpayment in the total amount of RSD 75,845 thousand, out of which about RSD 70,649 thousand relate to the earning based on the taxes paid for contracts and invoices with Visa and MasterCard in 2014 and 2015, for which, according to opinion of Ministry of Finance of Republic of Serbia, there was no obligation to pay,
- Rental income from previous years on the basis of revenue recognition for payments made in 2014 and 2015 by the client Politika Newspapers and Magazines in the amount of RSD 62,480 thousand,
- Gains on the sales of assets acquired in the lieu of debt collection in the amount of RSD 4,320 thousand,
- Gains on sales of property and equipment previously used in business activity on the amount of RSD 506 thousand.

b) Net gains on investments

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Gains on sales of AIK bank Niš shares	5,143	-
Total	**5,143**	**-**

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:

	In RSD '000 For the year ended 31 December 2016	2015
Impairment allowance of loans and receivables	24,325,456	24,284,742
Provisions for off-balance sheet items	701,750	647,438
Reversal of impairment allowance of loans and receivables	15,498	126
Reversal of provisions for off-balance sheet items	(11,121,231)	(10,451,493)
Income from collection of receivables previously written-off	(784,280)	(673,059)
Impairment allowance of loans and receivables	(57,696)	(174)
Total	**13,079,497**	**13,807,580**

Within the expenses on impairment of balance sheet items, the Group has also recorded impairment of foreclosed assets acquired through collection of receivables in the amount of RSD 907,816 thousand, based on the valuation of real estate and equipment by a certified appraiser (2015: RSD 996,836 thousand).

Until the end of January 2017, the Group did not have material collections of loans and previously impaired receivables 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 29)	Off-balance sheet liabilities (Note 33)	Total
Balance as of January 1, 2016	**399,898**	**38,133,470**	**98,039**	**2,639,054**	**575,406**	**41,845,867**
New impairment allowance	4,051	22,616,148	82,166	1,623,091	701,750	25,027,206
Decrease in impairment allowance	(2,077)	(10,931,042)	(941)	(187,171)	(784,280)	(11,905,511)
Foreign exchange effects	15,585	482,991	115	16,348	616	515,655
Write-offs	(105,463)	(18,912,206)	(13,500)	(114,838)	-	(19,146,007)
Other movements	-	701,241	-	(400,073)	-	301,168
Balance as of December 31, 2016	**311,994**	**32,090,602**	**165,879**	**3,576,411**	**493,492**	**36,638,378**

In 2016, the Gank has reported the increase in net expense on impairment allowances and provisions in total amount RSD 13,121,695 thousand. Income from collection of written-off receivables in the amount of RSD 57,695 thousand mostly relates to clients HI Župa Kruševac, Jugotehnika Novi Sad and Niš Niteks.

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

Other changes in the accounts of impairment and provisions, amount of RSD 19,146,007 thousand refers to the reduction on the basis of transfer of permanent write-offs to the Parent Bank's off-balance sheet.

In 2016, the fair value of shares (investments) in subsidiaries was assessed and an impairment was recognized as an expense in the amount of RSD 2,869,029 thousand in individual financial reports of the Parent bank in accordance with the relevant IAS/IFRS. This impairment has not been included in the consolidated financial statements.

15. STAFF COSTS

Staff costs include:

		In RSD '000 For the year ended 31 December
	2016	**2015**
Net salaries	3,010,170	2,774,740
Net benefits	488,056	447,887
Payroll taxes	442,875	412,675
Payroll contributions	963,233	919,989
Considerations paid to seasonal and temporary staff	17,670	14,339
Provisions for retirement benefits - net	50,724	41,634
Other staff costs	86,741	82,059
Total	**5,059,469**	**4,693,323**

16. DEPRECIATION/AMORTIZATION CHARGE

		In RSD '000 For the year ended 31 December
	2016	**2015**
Amortization charge – intangible assets (Note 25.2)	224,443	267,854
Depreciation charge – property and equipment (Note 26.2)	449,499	542,847
Depreciation charge – investment property (Note 27.1)	55,784	55,286
Total	**729,726**	**865,987**

17. OTHER EXPENSES

Other expenses include:

	In RSD '000 For the year ended 31 December 2016	2015
Cost of materials	386,972	472,907
Cost of production services	2,330,253	2,451,135
Non-material costs (without taxes and contributions)	2,956,348	2,698,784
Taxes payable	158,401	189,386
Contributions payable	767,084	731,505
Other costs	25,695	30,918
Other expenses	314,815	966,485
Losses on the valuation of property and equipment, investment property and intangible assets	676,944	59,072
Provisions for litigations (Note 33)	488,424	444,400
Total	**8,104,936**	**8,044,592**

a) Other expenses

Within the other expenses of the Parent bank in total amount of RSD 305,835 thousand among other, following items were recorded:

- Expenses arising from outflows after the lost court dispute with the client "Republic of Serbia Ministry of Finance regarding Intereksport in bankruptcy in the amount of RSD 125,567 thousand (Note 33a)
- Expenses on the basis of invoices paid to the insurance company for life insurance policies of clients endorsed in favour of Bank in the amount of RSD 85,500 thousand. Policies are used as collateral for retail loans.
- Costs arising from the acquisition of foreclosed assets acquired through collection of receivables in the amount of RSD 19,972 thousand.

б) Provision for litigations

Expenses related to provisions for litigation of the Parent bank in the total amount of RSD 368,501 thousand (Note 33) relate to:

- The increase in expenditure for new legal claims - new claims (thirty individual cases) during 2016, of which, only on the basis of the complaint of one person for a unjust enrichment and retention of net dividends, provision was made in the amount of RSD 163, 756 thousand,
- Increased expenditure on active cases from previous years, out of which amount of RSD 24,739 thousand relates to the increase in the provision for the dispute with the Agency for Privatization based on the activation of the guarantee for good performance (from 14 January 2005 on behalf of Vektra M d.o.o., Belgrade), and an expense of RSD 36,221 thousand relate to the increase in provisions for litigation with Intereksport ad, Beograd (in liquidation) on the basis of reducing the present value of the obligation, on the basis of: the growth rate of the RSD against the USD, as well as the accrued interest for the previous year at the statutory interest rate.

18. INCOME TAXES

The Parent Bank does not have the abilities for fiscal consolidation on the basis of existing regulations in the Republic of Serbia. Final amounts of liabilities arising from income taxes Group members determine by applying the tax rate on the tax base prescribed by municipal regulations, and disclose in the respective notes to its annual statutory financial statements.

Tax rates for the year 2016 were:

Republic of Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

Income tax components for the Group as at December 31 consist of:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Current income tax	(21,318)	(22,211)
Deferred income tax benefits	315,718	114,819
Deferred income tax expense	(1,844)	(108)
Total	**292,556**	**92,500**

Taking into account impossibility of tax consolidation, income tax components are disclosed separately as follows:

18.1. The Parent Bank

18.1.1. Income tax components as at December 31 consist of:

	In RSD '000 For the year ended 31 December	
	2016	**2015**
Deferred income tax benefits	314,453	114,554
Deferred income tax expense	-	(27)
Total	**314,453**	**114,527**

In 2016 and 2015 the Bank did not report current income tax expenses pursuant to the effective tax regulations.

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

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

In RSD '000

	2016	2016	2015	2015
Profit for the year before taxes		**(8,377,636)**		**(6,175,885)**
Tax calculated using the local income tax rate	-15%	(1,256,645)	-15%	(926,383)
Expenses not recognized for tax purposes	7,82%	655,221	22.77%	1,406,244
Tax effects of the net capital losses /gains	-0,07%	(6,169)	-0.09%	(5,773)
Tax effects of income reconciliation	-0,12%	(9,686)	-0,06%	(3,749)
Tax credit received and used in the current year	0,07%	6,169	0.09%	5,773
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-10,11%	(846.851)	-12.54%	(774,755)
Tax effect adjustments (used and new ones)	-3,75%	(314.453)	-1.85%	(114,527)
Tax effects stated within the income statement		**314,453**		**114,527**

Expenses not recognized for tax purposes totaling RSD 655,221 thousand, mostly relate to the effects of increased impairment allowance in the amount of RSD 589,327 thousand (15% of RSD 3,928,849 thousand).

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

In RSD '000
For the year ended
31 December

	2016	2015
Balance as at January 1	(329,258)	(150.407)
Occurrence and reversal of temporary differences	305,666	(178,851)
Balance as at December 31	**(23,592)**	**(329,258)**

18.1.4. Current tax assets:

In RSD '000
For the year ended
31 December

	2016	2015
Current tax assets (paying a monthly installment income tax for 2016 according to the Income tax law)	-	37,017

During 2016, the Bank did not pay income tax, as reported tax loss in the 2015. Overpayment from past periods is used in the compensation, upon payment of value added tax. Current tax assets by the end of 2016 were completely used.

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

18.1.5. Deferred tax assets and liabilities

18.1.5.1. Deferred tax assets and liabiltiies relate to:

In RSD '000

	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	77,473	-	77,473	-	(30,336)	(30,336)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	899	(566,448)	(565,549)	40,225	(511,754)	(471,529)
Long-term provisions for retirement benefits	41,978	-	41,978	36,180	-	36,180
Impairment of assets	284,297	-	284,297	136,427	-	136,427
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period						
Provisions for litigations	1,134	-	1,134	-	-	-
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	137,075	-	137,075	-	-	-
Total	**542,856**	**(566,448)**	**(23,592)**	**212,832**	**(542,090)**	**(329,258)**

Brought forward tax losses that have not been recognized in the books and based on which current tax assets have not been generated amount to RSD 20,492,211 thousand and they relate to accumulated tax losses realized in 2014, 2015 and 2016 These can be used as compensation for Corporate Income Tax in the following years.

Deferred tax assets are not recognized also on tax credits for investments in fixed assets in the amount of RSD 15,692 thousand neigher on tax credits for inter-company dividends in the amount of RSD 13,154 thousand.

Overview of tax credits for which deferred tax assets were not recognized:

In RSD '000

Type of tax credit	**Year**	**Amount as at 31.12.2015**	**Amount as at 31.12.2016**	**Expiration date of use**
Tax losses carried forward	2014	388,385	388,385	2019
	2015	10,384,084	10,384,084	2020
	2016	-	9,719,742	2021
Total tax losses carried forward			**20,492,211**	
Impact of tax losses on future income tax (20,492,210 * 15%)			3,073,832	од 2019 -2021
Tax credit on the basis of investment in fixed assets	2013	15,692	15,692	2023
Tax credit on the basis of intercompany dividends	2014	19,323	13,154	2019
Total tax credits for future income tax liabilities			**3,102,678**	

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18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

18.1.5.2. Movements in temporary difference during 2016 and 2015 are shown as follows:

In RSD '000

2016	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	(30,336)	104,920	(3,073)	5,962	77,473
Securities	(471,529)	-	(94,020)	-	(565,549)
Long term provisions for employee benefits	36,180	5,254	544	-	41,978
Impairment of assets	136,427	147,870		-	284,297
Assets based on the payment of other employee liabilities	-	1,134	-	-	1,134
Provisions for legal disputes	-	55,275	-	81,800	137,075
Total	**(329,258)**	**314,453**	**(96,549)**	**87,762**	**(23,592)**

2015	As at 1 January	Through P&L	Through OCI	As at 31 December
Property, plant and equipment	(64,287)	34,022	(71)	(30,336)
Securities	(173,039)	-	(298,490)	(471,529)
Long term provisions for employee benefits	26,750	4,247	5,183	36,180
Impairment of assets	60,142	76,285	-	136,427
Assets based on calculation of public duties	27	(27)	-	-
Total	**(150,407)**	**114,527**	**(293,378)**	**(329,258)**

18. INCOME TAXES (continued)

18.1. The Parent Bank (continued)

18.6 Tax effects relating to Other comprehensive income

In thousand RSD

	2016			2015		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities available for sale	364,619	(54,693)	309,926	1,987,947	(298,105)	1,689,842
Net decrease due to actuarial losses	(3,626)	544	(3,082)	(34,552)	5,183	(29,369)
Valuation of property	58,580	(3,073)	55,507	(234)	(71)	(305)
Decrease due to fair value adjustments of equity investments and securities available for sale	262,184	(39,327)	222,857	2,568	(385)	2,183
Total	**681,757**	**(96,549)**	**585,208**	**1,955,729**	**(293,378)**	**1,662,351**

18.2. Komercijalna banka a.d., Budva

18.2.1. Income tax components as at December 31 consist of:

In RSD '000
For the year ended 31 December

	2016	2015
Tax expense	(7,544)	(685)
Deferred income tax benefits	1,265	265
Deferred income tax expense	(1,844)	(76)
	(8,122)	**(496)**

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

	2016	2016	2015	2015
(Loss) / Profit before tax		**(1,111,428)**		**(606,022)**
Tax calculated at the local rate of 9%	9.00%	(100,028)	9.00%	(54,542)
Taxable income - related parties and capital gains	-0.68%	7,543	-0.11%	685
Tax deductible expenses	-0.11%	1,216	-0.05%	319
Tax credits	-7.53%	83,726	-8.92%	54,034
Effective income tax	-0.68%	(7,543)	-0.08%	496
Tax effects of items reported in the income statement		**(7,543)**		**496**

18. INCOME TAX (continued)

18.3. Komercijalna banka a.d., Banja Luka

18.3.1. Components of income taxes as of December 31 were as follows:

In RSD '000

	For the year ended on December 31 2016	2015
Tax expenses	(12,921)	(21,384)
	(12,921)	**(21,384)**

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

	2016	2016	2015	2015
(Loss) / Profit before tax		**38,821**		**(129,975)**
Tax calculated at the local income tax rate of 10%	10.00%	3,882	10.00%	(12,998)
Tax losses carried forward from previous period	-	-	-	-
Tax deductible expenses	46.73%	18,140	-21.66%	28,153
The effects of the recognized deferred tax income	-17.35%	(6,735)	-	7,446
Income tax – free	-6.09%	(2,365)	0.94%	(1,218)
Effective tax	-33.28%	12,921	-16.45%	21,384
Tax effects of items reported in the income statement		**12,921**		**21,384**

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

In RSD '000

	For the year ended on December 31 2016	2015
Balance as at January 1	2,557	586
Occurrence and reversal of temporary differences	1,857	1,971
Balance as at December 31	**4,414**	**2,557**

18. INCOME TAX (continued)

18.4. KomBank INVEST Društvo za upravljanje investicionim fondom a.d., Beograd

18.4.1. Components of income taxes as of December 31 were as follows:

	In RSD '000 For the year ended on December 31 2016	2015
Tax expense	(854)	(142)
Deferred income tax benefits	-	-
Deferred income tax expense	-	(5)
	(854)	**(147)**

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

	In RSD '000 For the year ended on December 31 2016	2015
Profit before tax	28,045	3,495
Income tax at the statutory tax rate of 15%	4,207	524
Tax effect of expenses deductible for tax purposes	-	10
The tax effects of net capital gains	854	142
Tax effects of differences of depreciation for tax purposes and accounting depreciation	41	37
Tax effects of losses for tax purposes	(411)	(1,542)
Correction of tax effects (effect of used and new)	(4,691)	829
Other	854	147
Tax effects of items reported in the income statement	**(854)**	**147**
Effective tax rate	**3.05**	**4.21**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

In RSD '000

	December 31 2016	December 31 2015
In RSD		
Cash on hand	3,327,335	2,910,101
Gyro account	20,295,030	20,884,697
Interest on obligatory RSD reserves	-	5,000,000
Other RSD cash funds	100	100
	23,622,465	**28,794,898**
In foreign currencies		
Cash on hand	3,883,053	4,608,208
Foreign currency obligatory reserves	33,125,275	35,225,371
Other cash funds	1,288,309	266,741
	38,296,637	40,100,320
Total	**61,919,102**	**68,895,218**
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (Note 23.1)	10,867,916	9,996,838
Foreign currency obligatory reserves	(32,125,275)	(35,225,371)
Deposited surplus liquid assets	-	(5,000,000)
	(22,257,359)	**(30,228,533)**
Cash and cash equivalents reported in statement of cash flows	**39,661,743**	**38,666,685**

In the statement of cash flows the Group reports on the cash funds held on the gyro account held with NBS, 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.

The Parent Bank

In the statement of cash flows the Bank reports on the cash funds held on the gyro account held with NBS, 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.

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0.0% to 5.00%, depending on the maturity of liabilities and their sources, whereby RSD reserve is comprised of: obligatory RSD reserves, 38.00% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 30.00% of RSD equivalent of obligatory reserves in EUR to deposits over 730 days (Official gazette of RS, no. 135/2014).

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

The Parent Bank (continued)

The National Bank of Serbia pays interest on these RSD reserves in the amount of 1.75% per annum starting from November 18th 2015.

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.

Persuant to the Decision on Amendments to the Decision on Obligatory Reserves held with NBS dated as of December 11, 2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied (previously 22%)
- for foreign currency deposits placed for over 730 days the rate of 13% was applied (previously 15%)
- for RSD deposits indexed with currency clause the rate of 100% was applied (previously 50%) regardless of the period of placement

The Bank does not earn interest on mandatory reserves in foreign currency. During 2016 and in accordance with Decision on obligatory reserves held with Central bank, the Bank allocated a portion of its foreign currency reserve to its gyro account.

Other foreign currency cush funds of RSD 23 thousand (2015: RSD 6,075 thousand) entirely relate to the clearing account held with the Central Securities Registry, Depository and Clearing House for trade in securities.

Komercijalna banka a.d., Budva

The obligatory reserves of the Bank as at December 31, 2016 represent the minimum deposits allocated in accordance with the regulations of the Central bank of Montenegro on which the "Decision on Banks' Obligatory Reserves with the Central bank of Montenegro" ("Official Gazette of Montenegro", No. 73/15, 3/16 and 78/15) refer to. Accordingly, the Bank calculates the obligatory reserves on demand deposits and time deposits.

Deposit accounts at depository institutions in Montenegro relate to the obligatory reserves allocated at the rate of 9.5% on the part of the base consisting of demand deposits and deposits with agreed maturity up to one year or 365 days, and at the rate of 8.5% on the part of the base that consists of deposits with agreed maturity over one year, or over 365 days. On deposits with maturity over one year that have a clause on the possibility of cancellation of those deposits in less than 365 days, the rate of 9.5% is applied.

Resources available in order to maintain daily liquidity of the Bank amount to 50%.

As at December 31, 2016, the banks are allowed to withdraw 25% of obligatory reserves and keep them in the form of treasury bills issued by Montenegro. Central Bank pays them a monthly fee of 1% per annum on the amount representing a difference between 50% of the total funds allocated as obligatory reserves and the amount of funds allocated in the form of treasury bills, to maximum of 25% of allocated funds.

The Bank did not use the obligatory reserve funds in 2016.

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

Komercijalna banka a.d., Banja Luka

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

Obligatory reserves with the Central Bank of Bosnia and Herzegovina represent the minimum reserve of funds in local currency calculated in accordance with the Decision on obligatory reserves with the Central Bank of Bosnia and Herzegovina.

Starting from May 1st 2015, the Central Bank of Bosnia and Herzegovina charges a fee to banks as follows:

- On the amount of obligatory reserves - the average EONIA, which is recorded in the same period on the market decreased by 10 basis points or a minimum zero,
- On the amount higher than obligatory reserves - a zero rate of reimbursement.

Starting from July 1st 2016, the Central Bank of Bosnia and Herzegovina charges a fee to banks as follows:

- On the amount of obligatory reserves – a zero rate of reimbursement,
- On the amount higher than obligatory reserves – reimbursement is calculated at the rate of 50% of the rate applied by European Central Bank on commercial banks' deposits (Deposit Facility Rat).

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

Financial assets held for trading comprise:

		In RSD '000
	December 31 2016	**December 31 2015**
Securities held for trading (in RSD)	247,862	803,543
Securities held for trading (in foreign currencies)	-	52,268
Total (Note 4.1.6)	**247,862**	**855,811**

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

Breakdown of financial assets held for trading is provided below:

In RSD '000

	December 31 2016 Total assets held for trading	December 31 2015 Total assets held for trading
Republic of Serbia bonds	-	183,121
Corporate shares	-	4,520
Bank shares	-	275
Investment units of OIF KomBank Devizni fond	4,942	4,755
Investment units of OIF Novčani fond	242,920	663,140
Total	**247,862**	**855,811**

Investment units as at December 31, 2016 in total amount of RSD 247, 862 thousand relate to investment units of KomBank Novčani fond, Beograd and OIF Devizni fond.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

In RSD '000

	December 31 2016	December 31 2015
Securities available for sale (in RSD)	43,826,167	42,487,488
Securities available for sale (in foreign currencies)	96,063,753	89,426,001
Total (Note 4.1.6 and 3.1)	**139,889,920**	**131,913,489**
Impairments	(81,710)	(370)
Total	**139,808,210**	**131,913,119**

Financial assets available for sale

Securities available for sale (in RSD) as at December 31, 2016 relate to Republic of Serbia treasury bills in the amount of RSD 9,407,495 thousand (2015: RSD 11,669,519 thousand), Republic of Serbia bonds in the amount of RSD 33,905,659 thousand (2015: RSD 29,948,565 thousand), bonds from the City of Pančevo and Municipalities Stara Pazova and Šabac in the amount of RSD 431,302 thousand (2015: RSD 452,692 thousand), bonds of the company Tigar a.d., Pirot in the amount of RSD 81,710 thousand (2015: RSD 79,442 thousand).

Of the total amount of impairment allowance, RSD 81,710 thousand (2015: RSD 336 thousand) relates to the bonds of the company Tigar a.d., Pirot.

21. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Financial assets available for sale

Securities available for sale in foreign currencies as at December 31, 2016 relate to Republic of Serbia treasury bills in the amount of RSD 4,786,597 thousand (2015: RSD 11,854,135 thousand), long-term Government of the Republic of Serbia bonds in the amount of RSD 86,592,932 thousand (2015: RSD 72,238,381 thousand); Government of the Montenegro bonds in the amount of RSD 2,038,226 thousand (2015: RSD 329,343 thousand), Government of the Republic of Srpska in the amount of RSD 827,069 thousand (2015: RSD 202,307 thousand) and foreign bank bonds - Raiffeisen Bank International in the amount of RSD 1,818,930 thousand (2015: RSD 2,017,859 thousand).

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

Impairment allowance of securities available for sale		**In RSD '000**
	December 31 2016	**December 31 2015**
Individual impairment allowance		
Balance at January 1st	370	494
Current year impairment allowance:		
Increase (Note 14)	81,230	618
Exchange rate effects (Note 14)	115	6
Items not included over the year (Note 14)	(5)	(748)
Total individual impairment allowance	**81,710**	**370**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

		In RSD '000
	December 31 2016	**December 31 2015**
Securities helt to maturity (in RSD)	84,169	206,975
Securities helt to maturity (in foreign currency)	368,999	-
Impairment allowance	(84,169)	(97,669)
Total (Note 4.1.6)	**368,999**	**109,306**

22. FINANCIAL ASSETS HELD TO MATURITY (continued)

Impairment allowance of securities held to maturity

In RSD '000

	December 31 2016	December 31 2015
Individual impairment allowance		
Balance as at January 1st	(2,715)	18,415
Current year impairment allowance:		
Increase (Note 14)	-	1,097
Reclassified from the individual to the group	-	-
Items not included (Note 14)	-	(22,227)
Write-offs	(5,500)	-
Other	-	-
Total individual impairment allowance	**(8,215)**	**(2,715)**
Group impairment allowance		
Balance as at January 1st	100,384	101,514
Current year impairment allowance:		
Increase (Note 14)	936	7,350
Reclassified from the individual to the group	-	-
Items not included (Note 14)	(936)	(7,350
Write-offs	(8,000)	(1,130)
Other	-	-
Total group impairment allowance	**92,384**	**100,384**
Total group and individual impairment allowance	**84,169**	**97,669**

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

23.1 Loans and receivables due from banks include:

In RSD '000

	December 31 2016	December 31 2015
RSD loans and receivables		
Per repo transactions	20,000,000	1,200,000
Loans for working capital	3,000,000	100,000
Overnight loans	1,000,000	500,000
Other receivables	14,580	8,686
Prepayments	22,199	14,885
Impairment allowance	-	(105,463)
	24,036,779	**1,718,108**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	10,867,916	9,996,838
Overnight loans	585,677	1,279,338
Other loans and receivables due from foreign banks	772,678	615,076
Foreign currency deposits placed with other banks	6,204,867	3,519,438
Prepayments	710	12
Other receivables	9,184	16,485
Secured foreign currency warranties	1,050,864	998,037
Impairment allowance	(311,994)	(294,435)
	19,179,902	**16,130,789**
	43,216,681	**17,848,897**

As of December 31, 2016 securities acquired through "reverse" repo transactions with the National Bank of Serbia amounting to RSD 20,000,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rate from 2.54% to 3.09%.

Short-term RSD deposits due from banks were deposited for a period of a year at interest rates ranging from 2.55 % to 3.30% per annum.

Short-term foreign currency deposits due from banks were deposited for a period of a year at interest rates ranging from 0.10% to 0.30% annually for EUR deposits, from 0.15% to 0.5% for USD and from 0.02% to 0.80 for CHF. Interest rates applied to the long-term revolving loans approved to subsidiary banks ranged between 2.568% and 2.738% and for long term revolving loans between 2.557% and 2.710%.

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23. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

23.1 Loans and receivables due from banks (continued)

Individual impairment allowance	**2016**	**2015**
Balance as at January 1st	399,760	368,589
Current year impairment allowance:		
Increase (Note 14)	-	20
Exchange rate effects (Note 14)	15,577	31,171
Write-offs	(105,463)	-
Items not included (Note 14)	-	(20)
Total individual impairment allowance	**309,874**	**399,760**

Group impairment allowance	**2016**	**2015**
Balance as at January 1st	138	274
Current year impairment allowance:		
Increase (Note 14)	4,051	423
Exchange rate effects (Note 14)	8	-
Write-offs	-	-
Items not included (Note 14)	(2,077)	(559)
Total group impairment allowance	**2,120**	**138**
Balance as at December 31	**311,994**	**399,898**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

In RSD '000

	2016			2015		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	599,731	(77,830)	521,901	587,564	(187,201)	400,363
Working capital loans	47,892,654	(8,143,530)	39,749,124	46,406,682	(10,411,164)	35,995,518
Export loans	2,171,791	(2,039,330)	132,461	2,275,456	(1,525,569)	749,887
Investment loans	30,263,822	(4,018,372)	26,245,450	28,203,014	(3,348,405)	24,854,609
Purchased loans and receivables - factoring	298,788	(807)	297,981	217,372	(12,412)	204,960
Loans for payments of imported goods and services	2,306,016	(2,097,996)	208,020	5,372,720	(4,365,328)	1,007,392
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	507,877	(325,392)	182,485	2,135,297	(1,478,571)	656,726
Other loans and receivables	43,592,100	(11,901,963)	31,690,137	64,657,506	(13,660,713)	50,996,793
Prepayments	225,863	(127,098)	98,765	581,182	(205)	580,977
Accruals	(226,002)	-	(226,002)	(265,283)	-	(265,283)
	127,632,640	**(28,732,318)**	**98,900,322**	**150,171,510**	**(34,989,568)**	**115,181,942**
Retail customers						
Transaction account overdrafts	4,035,694	(709,744)	3,325,950	4,171,154	(707,611)	3,463,543
Housing loans	42,521,786	(1,113,184)	41,408,602	41,486,329	(942,474)	40,543,855
Cash loans	21,559,287	(1,030,537)	20,528,750	18,473,635	(1,022,547)	17,451,088
Consumer loans	408,830	(47,905)	360,925	530,350	(52,406)	477,944
Other loans and receivables	2,713,060	(453,876)	2,259,184	2,970,103	(415,030)	2,555,073
Prepayments	216,355	(3,038)	213,317	211,985	(3,834)	208,151
Accruals	(596,042)	-	(596,042)	(458,940)	-	(458,940)
	70,858,970	**(3,358,284)**	**67,500,686**	**67,384,616**	**(3,143,902)**	**64,240,714**
Balance as at December 31	**198,491,610**	**(32,090,602)**	**166,401,008**	**217,556,126**	**(38,133,470)**	**179,422,656**

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:

In RSD '000

	December 31 2016	December 31 2015
Individual impairment allowance		
Balance as at January 1	**35,918,535**	**11,550,585**
Current year impairment allowance:		
Charge for the year (note 14)	11,692,716	14,412,207
Reclassified from group to individual impairment allowance	(2,731,965)	13,383,852
Effects of the changes in foreign exchange rates (note 14)	120,287	(6,548)
Reversal (note 14)	(3,360,826)	(3,449,310)
Written off	(11,816,533)	-
Off- balance sheet items	-	-
Previous years interest income	-	-
Other (Note 14)	98,773	27,749
Total individual impairment allowance	**29,920,987**	**35,918,535**
Group impairment allowance		
Balance as at January 1	2,214,935	13,018,407
Current year impairment allowance:		
Charge for the year	10,923,432	8,621,567
Reclassified from group to individual impairment allowance	2,731,965	(13,383,852)
Effects of the changes in foreign exchange rates(note 14)	362,704	143,535
Reversal (note 14)	(7,570,216)	(6,761,221)
Written off (note 14)	(7,095,673)	(3,383)
Other (note 14)	602,468	579,882
	2,169,615	**2,214,935**
Balance as at December 31	**32,090,602**	**38,133,470**

24.3 Loans and receivables due from retail customers

Short-term RSD and foreign currency loans were approved for periods from 30 days to one year, an interest rates ranging between 2.50% and 17.5% per annum.

Long-term RSD and foreign currency loans were approved for periods from 13 to the maximum of 30 years, at interest rates ranging between 2.50% and 13.95%.

Loans and receivables due from legal entities

Short-term RSD loans were approved for periods up to one year, at interest rates ranging between 0.3% and 1.0% per month. On the other hand, short-term foreign currency loans were approved for periods to one year, at interest rates ranging between 0.125% and 0.65% per month (EUR).

Long-term RSD loans were approved for periods from 18 to 24 months, at interest rates ranging between 1.5% and 6.25% per annum. Finally, long-term foreign currency loans were approved for periods up to 96 months, at interest rates ranging between 1.5% and 11.9% per annum (EUR).

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

24.3 Loans and receivables due from retail customers (continued)

Risks and Uncertainties

The Group's 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, the Group's 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's management are unsuccessful, additional amounts of allowances for impairment and provisions for losses based on the assessed irrecoverability would be required in the forthcoming reporting periods.

25. INTANGIBLE ASSETS

25.1 Intangible assets comprise:

In RSD '000

	December 31 2016	December 31 2015
Intangible assets	391,983	240,641
Intangible assets in progress	2,563	11,307
Total	**394,546**	**251,948**

25. INTANGIBLE ASSETS (continued)

25.2 Movements on the account of intangible assets in 2015 and 2016 are presented below:

In RSD '000

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
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)	-
Disposals	(182)	-	(182)
FX adjustments	1,385	18	1,403
Balance as at December 31, 2015	**1,868,107**	**11,307**	**1,879,414**
Balance at January 1, 2016	1,868,107	11,307	1,879,414
Additions	5,146	361,425	366,571
Transfers	370,234	(370,234)	-
Disposals	-	-	-
FX adjustments	3,790	65	3,855
Balance as at December 31, 2016	**2,247,277**	**2,563**	**2,249,840**
Depreciation			
Balance at January 1, 2015	1,358,560	-	1,358,560
Depreciation (Note 16)	267,854	-	267,854
Disposals	(182)		(182)
FX adjustments	1,234	-	1,234
Balance as at December 31, 2015	**1,627,466**	**-**	**1,627,466**
Balance at January 1, 2016	1,627,466	-	1,627,466
Depreciation (Note 16)	224,443	-	224,443
Disposals	-	-	-
FX adjustments	3,385	-	3,385
Balance as at December 31, 2016	**1,855,294**	**-**	**1,855,294**
Net Book Value			
Balance at January 1, 2015	**431,007**	**20,198**	**451,205**
Balance as at December 31, 2015	**240,641**	**11,307**	**251,948**
Balance as at December 31, 2016	**391,983**	**2,563**	**394,546**

26. PROPERTY, PLANT AND EQUIPMENT

26.1 Property, plant and equipment comprise:

In RSD '000

	December 31 2016	December 31 2015
Property	5,548,211	5,568,744
Equipment	652,080	774,603
Investments in progress	50,896	48,660
Total	**6,251,187**	**6,392,007**

Bank has engaged independent appraisers that have, in total, appraised 82 properties, 69 of which are used in business purposes while the remaining 13 are investment properties.

Non-current assets held for sale and properties acquired in lieu of debt collection have not been appraised, since they are valued according to IFRS 5 and Bank's internal guide book, at least once a year. Their fair value is decreased annually according to independent reputable appraiser.

Effects of the conducted appraisals of the assets owned by the Parent Bank:

Based on the Report of the independent appraisers, total negative effect amounted to RSD 538,690 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at RSD 597,270 thousand and
- Net increase in the revaluation reserves at 58,580 thousand as follows:

Accumulated effects of property appraisals			
Appraisal	Increase/Decrease	Effect	
		Income statement	Balance sheet
Increase in value	**(746,955)**	**(629,685)**	**(117,270)**
- Property, plant and equipment	(509,838)	(392,568)	(117,270)
- Investment properties	(237,117)	(237,117)	-
Increase in value	**208,265**	**32,415**	**175,850**
- Property, plant and equipment	208,265	32,415	175,850
Total:	**(538,690)**	**597,270**	**58,580**

In the process of adjustment to the carrying value of property for use for business purposes with their fair value, increase is made in the revaluation reserve in equity, and reduces the income statement or the revaluation reserves if they are formed in previous years for the asset.

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.1 Property, plant and equipment (continued)

Effects of the conducted appraisals of the assets owned by Komercijalna banka a.d., Budva:

Based on the Report of the independent appraisers, total negative effect amounted to EUR 121,671.99 or RSD 15,023 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at EUR 121,671.99 (RSD 15,023 thousand) and
- Net increase in the revaluation reserves at EUR 970,183.14 (RSD 119,791 thousand) as follows:

In RSD '000

Accumulated effects of property appraisals			
Appraisal	Increase/Decrease	Effect	
		Income statement	Balance sheet
Decrease in value	(15,023)	(15,023)	-
- Property, plant and equipment	(15,023)	(15,023)	-
Increase in value	119,791	-	119,791
- Property, plant and equipment	119,791		119,791
TOTAL:	**104,768**	**(15,023)**	**119,791**

Effects of the conducted appraisals of the assets owned by Komercijalna banka a.d., Banja Luka:

Based on the Report of the independent appraisers, total negative effect amounted to KM 236,037.09 or RSD 14,901 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at KM 236,037.09 or RSD 14,901 thousand.

In RSD '000

Accumulated effects of property appraisals			
Appraisal	Increase/Decrease	Effect	
		Income statement	Balance sheet
Decrease in value	14,901	(14,901)	-
- Property, plant and equipment	-	-	-
- Investment properties	14,901	(14,901)	-
Increase in value	-	-	-
- Property, plant and equipment	-	-	-
- Investment properties	-	-	-
TOTAL:	**14,901**	**(14,901)**	**-**

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.2 Movements on property, plant and equipment during 2016 and 2015 were as follows:

In RSD '000

	Property	Equipment	Investment in Progress	Total
Cost				
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 27.1)	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)
FX adjustments	1,465	2,919	28	4,412
Balance at December 31, 2015	**7,357,922**	**3,798,783**	**48,660**	**11,205,365**
Balance at January 1, 2016	7,357,922	3,798,783	48,660	11,205,365
Additions	13,925	7,028	381,725	402,678
Transfers from investment in progress	67,693	133,855	(201,548)	-
Transfers on investment in progress (Note 27.1)	-	-	(79,470)	(79,470)
Transfers from investment properties	339,823	-	-	339,823
Transfers on assets held for sale (Note 30)	(77,669)	-	(98,550)	(176,219)
Transfers from assets acquired through collection of receivables	103,579	-	-	(103,579)
Disposals and retirements	(11,037)	(42,065)	-	(53,102)
Sale	-	(2,446)	-	(2,446)
Appraisal increase	490,255	-	-	490,255
Appraisal decrease	(661,708)	-	-	(661,708)
FX adjustments	4,073	8,060	79	12,212
Balance at December 31, 2016	**7,626,856**	**3,903,215**	**50,896**	**11,580,967**
Depreciation				
Balance at January 1, 2015	1,627,059	2,798,749	-	4,425,808
Depreciation (Note 16)	180,079	362,768	-	542,847
Disposals and retirements	(16,213)	(115,932)	-	(132,145)
Sale	(2,204)	(24,109)	-	(26,313)
Other	(71)	-		(71)
FX adjustments	528	2,704	-	3,232
Balance at December 31, 2015	**1,789,178**	**3,024,180**	**-**	**4,813,358**
Balance at January 1, 2016	1,789,178	3,024,180	-	4,813,358
Depreciation (Note 16)	180,169	263,330	-	449,499
Transfers from investment properties (Note 27.1)	68,698	-	-	68,698
Transfers on assets held for sale	(48,397)	-	-	(48,397)
Transfers from assets acquired through collection of receivables	65,161	-		65,161
Disposals and retirements	(8,959)	(41,176)	-	(50,135)
Sale	-	(2,256)	-	(2,256)
Appraisal revaluation increase	162,200	-	-	162,200
Appraisal revaluation decrease	(136,847)	-	-	(136,847)
FX adjustments	1,442	7,057	-	8,499
Balance at December 31, 2016	**2,078,645**	**3,251,135**	**-**	**5,329,780**
Net book value				
Balance at January 1, 2015	**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**
Balance at December 31, 2016	**5,548,211**	**652,080**	**50,896**	**6,251,187**

The Group members have no buildings under mortgage in order to secure repayment of the loans.

Due to the incomplete land registers as at 31 December 2016, the Parent Bank for 34 buildings of total net carrying value of RSD 555.855 thousand has no proof of ownership (the number of objects includes assets acquired in lieu of debt collection). The Parent Bank's management is taking all the necessary measures to obtain title deeds.

During 2016, the Group members wrote-off permanently unusable fixed assets total net carrying value RSD 2,967 thousand.

During 2016 the Bank sold the equipment of net carrying value of RSD 190 thousand.

27. INVESTMENT PROPERTY

27.1 Movements on the account of investment property in 2016 and 2015 are presented below:

	In RSD '000 Total
Cost	
Balance at January 1, 2015	2,946,807
Transfer from investments in progress (Note 26.2)	259,908
Transfer from assets held for sale	27,008
Sale	(2,783)
Appraisal – decrease (Note 17)	(42,798)
FX adjustments	651
Balance at December 31, 2015	**3,188,793**
Balance at January 1, 2016	3,188,793
Transfer from investments in progress (Note 26.2)	79,470
Transfer to property, plant and equipment	(339,823)
Transfer from assets held for sale	145,516
Transfers from assets acquired through collection of receivables	361,681
Sale	(60,757)
Appraisal – decrease (Note 17)	(269,621)
FX adjustments	2,487
Balance at December 31, 2016	**3,107,746**
Depreciation	
Balance at January 1, 2015	235,594
Depreciation (Note 16)	55,286
Sale	(1,178)
Appraisal – decrease (Note 17)	(877)
FX adjustments	47
Balance at December 31, 2015	**288,872**
Balance at January 1, 2016	288,872
Depreciation (Note 16)	55,784
Transfer to property, plant and equipment	(68,698)
Transfers from assets acquired through collection of receivables	242,839
Sale	(1,628)
Appraisal – decrease (Note 17)	(17,603)
FX adjustments	129
Balance at December 31, 2016	**499,695**
Net book value	
Balance at January 1, 2015	**2,711,213**
Balance at December 31, 2015	**2,899,921**
Balance at December 31, 2016	**2,608,051**

27. INVESTMENT PROPERTY (continued)

Investment property information per Group member are presented below:

27.2.1 The Parent Bank

On 31 December 2016, the Parent Bank has reported investment property in the amount of RSD 2,217,816 thousand, consisting of facilities leased. On the basis of contracts concluded on a long-term lease, in 2016 the Bank has transferred from the investment property to the fixed assets for business purposes a part of a property in the Makedonska Street 29 in the amount of RSD 382.811 thousand.

During 2016, based on a valuation of certified external appraiser, the Parent Bank has performed impairment allowance of investment property in the amount of 237.117 thousand.

Also, during 2016, the Bank has sold the office space at Resavska 29, and on that basis made a decline in the present value of investment property of RSD 44,568 thousand.

Appraisal of real estate investment:

Property	Area in m^2	Book value before the appraisal in 000 RSD	Appraisal value		Difference in 000 RSD
			in 000 EUR	in 000 RSD	
Belgrade, Trg politike 1	3,354	809,997	6,560	701,408	(108,589)
Negotin, Save Dragovića 20-22	658	40,174	326	32,498	(7,676)
Lovćenac, Maršala Tita bb,	46,890	163,968	1,328	158,168	(5,800)
Niš, Bulevar 12. februar bb	816	16,930	137	16,714	(216)
Novi Sad, Vardarska 1/B	291	46,998	381	29,139	(17,859)
Novi Sad, Bulevar Oslobođenja 88, 3 premises	367	150,935	1,222	53,958	(96,977)
Total		**1,229,002**		**991,885**	**(237,117)**

27.2.2 As of December 31, 2016 the negative net result realized from investment property amounted to RSD 25,938 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Result
Belgrade, Trg politike 1	3,354	(21,456)	8,783	(12,673)
Niš, Vrtište nova d-zgrada	1,816	(2,358)	2,114	(244)
Niš, TPC Kalča	85	(803)	4,387	3,584
Beograd, Omladinskih brigada 19	15,218	(15,285)	2,540	(12,745)
Šabac, Majur, Obilazni put bb	1,263	(1,037)	293	(744)
Lovćenac, Maršala Tita bb,	46,890	(3,833)	2,462	(1,371)
Negotin, Save Dragovića 20-22	658	(922)	122	(800)
Niš, Bulevar 12. february bb	816	(282)	75	(207)
Beograd, Radnička 22	7,190	(16,295)	17,979	1,684
Beograd, Beogradska 39	460	(3,095)	777	(2,318)
Novi Sad, Vardarska 1/B,	291	(1,849)	1,893	44
Novi Sad, Bulevar Oslobođenja 88, 3 premises	367	(2,341)	2,748	407
Kotor, business premises, zgr.br.1 *	207	(555)	-	(555)
Beograd, Luke Vojvodića 77a*	80	-	-	-
		(70,111)	**44,173**	**(25,938)**

*business premises in Kotor and Belgrade have been recognized as investment properties as of December 31, 2016.

27. INVESTMENT PROPERTY (continued)

27.3.1 Komercijalna banka a.d., Banja Luka

On 31 December 2016, the Bank has reported investment property in the amount of RSD 271,393 thousand (2015: RSD 155,895 thousand), which make the objects leased.

On the basis of the agreement on long-term lease, the Bank has in 2016 carried out the transfer of real estate from the investment properties to the fixed assets held for sale (business-catering facility located in Nova Topola and land by the business-catering facility located in Nova Topola) in the amount of RSD 145,516 thousand.

In 2016, the Bank sold the office building- warehouse and related land in Tišća, Municipality Šekovići, and on that basis made an impairment in investment properties in the amount of RSD 14,561 thousand. The total selling price of property was RSD 13,636 thousand. There has been a loss on sales in the amount of RSD 922 thousand.

Appraisal of the investment properties owned by the Komercijalna banka a.d., Banja Luka:

a) Estimated value of investment properties where the estimated value was lower than the net book value:

			Appraisal value		
Property	**Area in m2**	**Book value before appraisal in RSD '000 динара**	**In EUR**	**In RSD '000**	**Value differences in RSD '000**
Business premises: Bescarinska zona Distrikt Brčko – Zona industrije i rada	1,024	51,603	362,713	44,785	(6,818)
Business building: Bescarinska zona Distrikt Brčko – Zona industrije i rada	873	16,277	107,604	13,286	(2,991)
Land – Bescarinska zona Distrikt Brčko – Zona industrije i rada	1,958	9,182	68,530	8,462	(720)
Land -Bescarinska zona Distrikt Brčko - Zona industrije i rada	2,763	12,934	82,890	10,235	(2,699)
Land -Bescarinska zona Distrikt Brčko - Zona industrije i rada	2,476	9,509	74,280	9,172	(337)
Land in Novoj Topoli	6,514	12,764	96,000	11,853	(910)
	1,709	127,973			
Business- hospitality premises – Nova Topola;	7,437	16,791	1,169,000	144,339	(426)
Total		**257,032**	**1,961,017**	**242,131**	**(14,901)**

27. INVESTMENT PROPERTY (continued)

b) Estimated value of investment properties where the estimated value was higher than the net book value:

Property	Area in m2	Book value in RSD '000	Appraisal value In EUR	Appraisal value In RSD '000	Value differences in RSD '000
Business building: Bescarinska zona Distrikt Brčko	949 $м^2$	29,606	242,983	30,002	396
TOTAL:		**29,606**	**242,983**	**30,002**	**396**

The Bank has not recognized an increase in value of the property on the basis of the assessment made.

On 31 December 2016, the net result from investment properties amounts to RSD 1,595 thousand:

In RSD '000

Property	Area in m²	Total expenses	Total revenues from lease	Net result
Brčko, Bescarinska zona bb	7,197	(2,302)	3,099	797
Nova Topola, land	5,767	-	378	378
Tišća - opština Šekovići, New warehouse	1,870	(1,103)	245	(858)
Actros motel-picerija Nova Topola	5,437	(949)	2,226	1,277
		(4,354)	**5,948**	**1,594**

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

In RSD '000

	31 December 2016	31 December 2015
NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS	349,523	170,667
	349,523	**170,667**

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

a) PARENT BANK'S NON-CURRENT ASSETS HELD FOR SALE

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	580
Požarevac, M.Pijade 2, business premises	790.82	30,050
Požarevac, M.Pijade 2, business premises	880.86	24,865
Belgrade, Toše Jovanovića 7, business premises	24.05	2,089
Vrbas, M. Tita 49, business premises	145.56	3,767
Kotor, business premises 1 and 2	690.00	98,550
Jastrebac, resort building	687.00	21,206
Jastebac, country house	108.00	1,729
Jastrebac, generator storage	65.00	334
		183,170

During 2016, one property (a flat in Krusevac) has been sold, which consequently led to a reduction in non-current assets held for sale by RSD 6,004 thousand net carrying value. The flat was sold for RSD 6,237 thousand.

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

During 2016, based on the certified independent appraiser, value of non-current assets held for sale has been decreased by RSD 1,963 thousand (note 17).

b) NON-CURRENT ASSETS HELD FOR SALE, Komercijalna banka a.d., Banja Luka:

Property	Area in m^2	Carrying Value
Business space Posušje	1,289.00	25,636
Business building and land,Kočićevo, Gradiška	5,333.50	20,948
Family building, Prijedor	505.65	6,683
Business building and land, Mrkonjić grad	2,619.00	15,202
Business building and land, Hadžići	775.00	20,539
Business building and land, Prijedor	7,043.00	64,961
Business building and land, Rovine, Gradiška	961	5,492
Equipment		6,892
		166,353

In 2016, there was not made sales of fixed assets held for sale - objects. During 2016, based on a valuation of certified external appraiser, the impairment of the value of fixed assets held for sale was made in the amount of RSD 6,182 thousand. According to internal documents of the Bank, reducing of the value of fixed assets held for sale amounting to RSD 6,861 thousand was made. Total impairment of fixed assets intended for sale during 2016 amounted to RSD 13,043 thousand. The Bank's management still has the intention to conduct the sale of all assets that have not been sold in the past year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

29. OTHER ASSETS

Other assets comprise:

In RSD thousand

	December 31, 2016	December 31, 2015
In RSD		
Fee receivables per other assets	94,293	132,319
Inventories	144,858	192,934
Assets acquired in lieu of debt collection	4,923,560	5,252,588
Prepaid expenses	100,430	145,942
Equity investments	1,380,921	1,375,966
Other RSD receivables	2,940,037	2,565,815
	9,584,099	**9,665,564**
Impairment allowance of:		
Fee receivables per other assets	(44,608)	(68,028)
Assets acquired in lieu of debt collection	(2,003,398)	(1,450,810)
Equity investments	(503,761)	(448,581)
Other RSD receivables	(875,893)	(596,944)
	(3,427,660)	**(2,564,363)**
In foreign currencies		
Fee receivables per other assets	77	-
Other receivables from operations	466,583	404,501
Receivables in settlement	872,143	298,821
Other foreign currency receivables	34,599	73,133
	1,373,402	**776,455**
Impairment allowance of		
Other receivables from operations	(193,464)	(135,724)
Receivables in settlement	(81,221)	(80,003)
	(274,685)	**(215,727)**
Total	**7,255,156**	**7,661,929**

On the basis of regular yearly inventory count, parent bank has written off inventories worth 22 thousand RSD as expense of a period.

Movements of other assets and prepayments impairment allowance is shown in the following table:

Individual impairment allowance — **In RSD thousand**

	December 31, 2016.	**December 31, 2015.**
Balance as of January 1	718,902	310,559
Impairment allowance in current year		
Charge for the year (note 14)	878,707	519,951
Foreign currency exchange effects (note 14)	13,473	5,106
Reversal (note 14)	(5,599)	(116,714)
Written off	(62,482)	-
Other	(307,270)	-
Total Individual impairment allowance	**1,235,731**	**718,902**

29. OTHER ASSETS (continued)

Group impairment allowance

In RSD thousand

	December 31, 2016.	December 31, 2015.
Balance as of January 1	1,920,152	1,312,657
Impairment allowance in current year		
Charge for the year (note 14)	744,384	721,508
Foreign currency exchange effects (note 14)	2,875	3,102
Reversal (note 14)	(181,572)	(93,344)
Written off	(52,356)	(284)
Other	(92,803)	(23,487)
Total Group impairment allowance	**2,340,680**	**1,920,152**
Balance as of December 31 (excluding small inventory)	**3,576,411**	**2,639,054**
Inventory impairment allowance (not exposed to credit risk)	125,934	141,036
Balance as of December 31 (including small inventory)	**3,702,345**	**2,780,090**

a) Equity investments

Other assets also comprise equity investments and are shown in the following table:

	2016.	2015.
Equity investments in banks and other financial organizations	82,536	143,467
Equity investments in companies and other legal entities	468,277	455,922
Equity investments in non-resident entities abroad	830,108	776,577
	1,380,921	**1,375,966**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(81,863)	(26,683)
Equity investments in companies and other legal entities	(421,898)	(421,898)
	(503,761)	**(448,581)**

Equity investments in banks and other financial organizations relate to: Euroaxis bank a.d., Moskva in the amount of RSD 78,387 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,266 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. oktobar a.d., Kruševac in the amount of RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Belgrade Stock Exchange in the amount of RSD 2,246 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 66,042 thousand and Politika a.d., Beograd in the amount of RSD 31,246 thousand.

29. OTHER ASSETS (continued)

a) Equity investments (continued)

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 683,882 thousand, MASTER Card in the amount of RSD 145,856 thousand and Montenegro Stock exchange Podgorica RSD 370 thousand.

Impairment allowance of equity investments totaling RSD 503,761 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, Euroaxis bank a.d., Moskva in the amount of RSD 78,387 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.

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling RSD 864,220 thousand, receivables which relate to material values acquired in lieu of debt collection, advances paid for working capital assets of RSD 18,779 thousand, rental receivables of RSD 372,270 thousand and interest receivables per other assets of RSD 219,069 thousand and receivables from operations per court verdict totaling RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling RSD 868,544 thousand for the most part pertain to receivables for spot transactions of RSD 756,435 thousand.

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection

Material values in lieu of debt collection totaling RSD 4,923,560 thousand, less recorded impairment allowance of RSD 2,003,398 thousand, with the net carrying value of RSD 2,920,162 thousand relate to members of the group:

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

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
I.C.P Kruševac, commercial building	12,836	47,174	08.06.2012.
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,784	24.07.2012.
Majur, Tabanovačka, category 4 arable field	14,452	1,634	10.08.2012.
Mladenovac, category 3 arable field	16,633	268	25,06.2012.
Obrenovac, Mislođin, arable field	10,017	1,054	11.07.2012.
Gnjilica, category 7 arable field	2,638	113	15.04.2008.
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	104,705	21.01.2009.
Residential building, Čačak, at Ratka Mitrovića 6	195	2,357	12.05.2009.
Novi Pazar, Kej skopskih žrtava 44, premises	82.95	2,840	27.09.2006.
Tivat, Mrčevac – residential building, auxiliarry facilities in construction and garage	277	5,202	23.12.2009.
Tutin, Buče category 4 forest	8,292	331	12.10.2010.
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	321	27.09.2012.
Budva, category 4 forest	974	4,023	27.05.2011.
Prijevor, category 4 forest	1,995	4,732	27.05.2011.
Residential building Galathea	925.35	244,494	21.11.2011.
Prijepolje, Karoševina, saw mill	450	1,063	08.11.2013.
Ćuprija, Alekse Šantića 2/24, apartment	72.40	872	15.01.2013.
Niš, Ivana Milutinovića 30, business premises	438.39	5,298	23.04.2013.
Niš, Triglavska 3/1, apartment	79.80	3,406	04.06.2013.
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	25,790	09.07.2013.
Mladenovac, field, category 3 forest	1,142	494	18.07.2013.
Niš, Bulevar 12. februara, warehouse- ancillary facility	2,062	42,088	30.07.2013.
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	23,663	01.10.2013.
Total I		**525,706**	

***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*

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
Kotor, business premises, property 1	106	24,891	22.12.2016.
Kotor, business premises, property 2	345	81,014	22.12.2016.
Kotor, business premises, property 3	345	81,014	22.12.2016.
Total II		**186,919**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

III 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

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
Valjevo, village Radjevo, warehouse	394	455	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,450	573	16.05.2014.
Bor, Nikole Pašića 21, production plant and warehouse	3,823	61,916	08.05.2014.
Subotica, Magnetna 17, production plant, warehouse	2,492	48,007	18.07.2014.
Reževići, Montenegro, karst, category 5 forest	1,363.20	19,954	22.07.2014.
Reževići, Montenegro, category 5 forest	5,638.54	82,528	22.07.2014.
Bajina Bašta, Vojvode Mišića 72/1, family house	110.25	2,643	01.08.2014.
Mokra Gora, house, fields	58,400	4,289	31.01.2014.
Kopaonik, house and yard	337	4,235	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,122	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,737	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,768	31.01.2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,660	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,199	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	28,152	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	31,485	31.01.2014.
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	9,013	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	5,106	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	4,980	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	25,720	31.01.2014.
Zrenjanin, Novosadski put 4, building with land	9,144	36,157	14.08.2014.
Niš, Ivana Gorana Kovačića 31, residential building	434.58	4,692	17.04.2013.
Mladenovac, category 3 and 4 arable fields	7,768	254	03.10.2014.
Bela Crkva, forest	4,187	84	03.10.2014.
Mladenovac, arable fields and orchards	25,136	539	03.10.2014.
Niš, Čajnička bb, residential building	825.74	11,158	14.03.2013.
Niš,Sjenička 1, business premises and warehouse	1,452.73	13,738	14.03.2013.
Valjevo, Vojvode Mišića 170, residential building	106	1,777	25.09.2014.
Beograd, Resavska 31, building	3,411	370,417	03.06.2014.
Zemun, Cara Dušana 130, production plants	6,876	104,334	16.06.2014.
Valjevo, Radnička 6, flat	69	2,888	28.05.2015.
Niš, Šumadijska 1, business premises	504.60	1,879	04.12.2014.
Mionica, Andre Savčić 8, family house	107	1,806	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	291	11.06.2012.
Sokobanja, production plant with land	5,042	24,561	31.07.2012.
Sokobanja, portirnica with land	2,005	706	31.07.2012.
Sokobanja, building with land	4,194	9,304	31.07.2012.
Sokobanja, arable land and category 4 orchard	417,908	15,082	31.07.2012.
Beograd, B.Pivljanina 83, residential building	278.52	65,233	23.08.2012.
Prokuplje, category 3 arable field	12,347	774	28.08.2015.
Divčibare, category 5 field	8,012	4,270	02.12.2015.
Lebane, Branka Radičevića 17, residential-business building	768.42	5,927	27.08.2015.
Loznica, Lipnica, residential-business building with land	146	2,149	15.10.2015.
Vrh polje, zgrada ugostiteljstva with land	1,334	2,456	16.05.2013.
Kruševac, St.selo, concrete base with land	100,560	141,143	11.03.2016.
Zrenjanin, Bagijaš, category 2 pasture	230	49	22.12.2015.
Reževići, Montenegro, karst, category 5 forest	10,462	33,893	26.02.2016.
Reževići, Montenegro, category 5 forest	8,866.39	15,211	23.12.2015.
Bajina Bašta, Vojvode Mišića 72/1, family house	1,225	12,444	05.05.2016.
Mokra Gora, house, fields	29,550	232	31.03.2016.
Kopaonik, house and yard	20,599	360	19.05.2016.
Total II		**1,232,350**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

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

In RSD thousand

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	9,643	08.06.2012.
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	12,816	31.07.2012.
Paraćin, coffee roasting line	3,822	31.12.2012.
Vranić, equipment, production line	5,135	09.07.2013.
Total IV	**31,416**	

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*

In RSD thousand

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	4,786	03.06.2015.
Equipment, supply of secondary raw materials	1,812	18.07.2014.
Movables, installation materials	799	13.05.2014.
Movable assets	18	08.12.2015.
Other	370	
Total V	**7,784**	
TOTAL (Net carrying value) I + II+ III+ IV+V	**1,984,175**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

During 2016, the Bank sold one property, in Resavska 29, net carrying value shown in the material values acquired in lieu debt collection of RSD 288,314 thousand. Part of this property was accounted as Investment property, RSD 44,568 thousand. Total net carrying value of the property was RSD 332,882 thousand, and it was sold for RSD 326,688 thousand.

Furthermore, during 2016 the Bank sold eight properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 139,261 thousand (three flats in Novi Beograd, house in Novi Pazar, land in Novi Pazar, Nis, Tutin and Rezevici). The total sales price of the aforesaid properties amounted to RSD 145,294 thousand.

Bank has engaged independent appraisers that have appraised non-current material values acquired in lieu of debt collection, acquired prior the period of twelve months.

In RSD 000

Effects of property impairment	377,012
Effects of equipment impairment	50,087
TOTAL	**427,099**

Total negative effect amounted to RSD 427,099 thousand and it was recognized as expense of a period as follows (note 14):

- For properties RSD 354,760 thousand based on lower appraisal market value and RSD 20,237 thousand according to internal act due to Bank's inability to sell the property in the period shorter than 12 months, even though the appraisal value is higher than book value, and finally RSD 2,015 thousand according to internal Bank's decision
- For equipment RSD 50,040 thousand based on lower appraisal market value and RSD 47 thousand according to internal decision.

29. OTHER ASSETS (Continued)

в) Material values acquired in lieu of debt collection (continued)

G1.1 Appraisal value of properties acquired in lieu debt collection

Property	Area in м2	Book value before the appraisal	Appraisal value In EUR thousand	Appraisal value Net carrying value in RSD	Difference in value
Beograd, Resavska 31, building	3,411	564,467	3,000	370,417	(194,050)
Čačak, Hotel „Prezident", Bulevar oslobođenja BB	2,278.92	110,921	848	104,705	(6,216)
Novi Sad, Bulevar oslobođenja 88, busines premises 22	226	31,258	228	28,152	(3,106)
Novi Sad, Bulevar oslobođenja 88, busines premises 23	253	39,285	255	31,485	(7,800)
Zemun, Cara Dušana 130, production complex	6,876	206,764	845	104,334	(102,430)
Niš, Ivana Gorana Kovačića 31, flat	434,58	4,830	38	4,692	(138)
Reževići, Crna Gora, a karst and a forest	1363.33	24,262	162	19,954	(4,308)
Reževići, Crna Gora, category 5 forest	5,638.80	85,821	668	82,528	(3,293)
Novi Pazar, Kej Skopskih žrtava 44, premises	82,95	3,019	23	2,840	(179)
Vranić, Milijane Matić 2, business premises with land	10,584.24	26,758	209	25,790	(968)
Lebane, Branka Krsmanovića 17, residential commercial building	768,42	6,246	48	5,927	(319)
Novi Sad, Tihomira Ostojića 4, business premises 7	134	9,661	73	9,013	(648)
Mokra Gora, fields and a house	58,400	7,275	35	4,289	(2,986)
Novi Sad, Polgar Andraša 40/a, business premises 9	81	7,825	41	5,106	(2,719)
Novi Sad, Polgar Andraša 40/a, business premises 10	79	7,632	40	4,980	(2,652)
Kopaonik, house with land	408	44,637	208	25,720	(18,917)
Beograd, Mihaila Avramovića 14a, residential building	337	8,212	34	4,235	(3,977)
Kruševac, Koševi bb, production-commercial building	925.35	252,316	2,100	244,494	(7,822)
Subotica, Magnetna 17, production plant and a warehouse	12,836	48,683	420	47,174	(1,509)
Beograd, Baje Pivljanina 83, commercial building	2,492	49,542	482	48,007	(1,535)
Bor, Nikole Pašića 21, buildings, a warehouse and a production plant	278,52	67,320	584	65,233	(2,087)
Zrenjanin, Bagljaš, Novosadski put 4, buildings, a pump and land	3,823	63,896	570	61,916	(1,980)
Novi Sad, Bulevar oslobođenja 30a, 5 business premises	9,374	37,364	431	36,207	(1,157)
Sinex, production plant, land and an orchard	181	20,109	164	19,486	(623)
Kula, Železnička bb, business premises with land	429,419	51,009	749	49,653	(1,356)
Niš, Čajnička, residential building	7,959	24,420	243	23,663	(757)
Niš, Sjenička, commercial building, warehouses and a workshop	825.74	11,515	176	11,158	(357)
Niš. Šumadijska 1, business premises	1,452.73	14,178	200	13,738	(440)
Niš, Ivana Milutinovića 30, business premises	504.60	1,939	70	1,879	(60)
Niš, Triglavska 3, a flat	438.69	5,468	56	5,298	(170)
Valjevo, Radnička 6, a flat	79.8	3,515	36	3,406	(109)
Čačak, Ratka Mitrovića 6, a house	69	2,981	35	2,888	(93)
Mionica, Andre Savčića 8, a house	195	2,433	20	2,357	(76)
Majur, Tabanovačka, category 4 arable field	107	1,863	28	1,805	(58)
Divčibare, category 5 field	14,452	1,656	23	1,634	(22)
Obrenovac, Mislođin, category 3 arable field	8,012	4,326	97	4,270	(56)
Prokuplje, Oblačina, category 3 and 4 arable fields	5,320	1,068	24	1,054	(14)
Bela Crkva, Kajtasovo, a forest	12,347	784	29	774	(10)
Other (70 properties)	4,187	85	1	84	(1)
Novi Sad, Polgar Andraša 40/a, business premises 9	-	71,838	-	69,824	(2,014)
TOTAL		**1,927,181**		**1,550,169**	**(377,012)**

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

G1.2 Appraisal value of equipment acquired in lieu debt collection

In 000 RS

Description	Book value before the appraisal	Net carrying value in RSD	Difference in value
Movables	1,766	854	(912)
Equipment, inventory and secondary raw materials	2,338	1,812	(526)
Other	80,161	31,512	(48,649)
TOTAL	**84,265**	**34,178**	**(50,087)**

For two buildings and a car worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

Komercijalna banka ad, Budva

Tangible assets acquired through collection of receivables in the past 12 months:

In RSD thousand

Description	Area in м^2	Value	Acquisition Date
Petrovac – commercial place	173	28,769	29.07.2016.
Total I		**28,769**	

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

Tangible assets acquired through collection of receivables in previous period:

Description	Area in м^2	Value in RSD 000	Acquisition Date
Danilovgrad – buildings (190 м²) and land (13,205 м²)	13,395	3,729	09.10.2007.
Podgorica – house with a store (381 м²) and land (329 м²)	710	20,219	31.12.2008.
Sutomore – hotel (970 м²) and land (620 м²)	1,590	98,901	31.01.2009.
Kotor Pobrdje – non-urbanized plot	31,534	55,563	28.02.2009.
Budva – forest	709	15,619	31.03.2009.
Rezevici – residential buildings	139	19,539	30.06.2009.
Podgorica – pasture	375	2,432	31.08.2009.
Andrejevica – land (12,942 м²) and production facility for wood processing (3 buildings of total 1,259 м² and building in energy. 32 м²)	14,233	11,051	31.10.2009.
Danilovgrad – residential buildings (709 м²), yard (500 м²) and land (16,544 м²)	17,753	32,163	30.11.2009.
Petrovac – residential buildings (252 м²), business premises (40 м²) и land (811 м²)	1,103	12,697	17.12.2009.
Rezevici – land	547	6,966	17.12.2009.
Podgorica – Dajbabe – Business premises (2,370 м²) and land (8,879 м²)	11,249	91,370	28.12.2009.
Подгорица – business premises	497	32,597	27.01.2010.
Cetinje – garage (30 м²) и land (374 м²)	404	1,563	25.05.2010.
Podgorica – Tolosi – residential building (394 м²) и land (61 м²)	455	1,951	31.07.2010.
Podgorica – Tolosi – residential building (500 м²) и yard (195 м²)	695	35,159	31.07.2010.
Kotor – Vranovici – forests and meadow	3,131	2,911	01.08.2010.
Budva – residential building	50	10,620	17.08.2010.
Danilovgrad – Spuz – residential buildings (228 м²) and land (1,364 м²)	1,592	4,725	31.10.2011.
Kotor – land	3,632	5,765	30.11.2011.
Podgorica – building and a hotel (661 м²) and land (264 м²)	925	59,649	31.12.2011.
Rijeka Crnojevica – residential buildings (3,309 м²) and land (43,436 м²)	46,745	99,395	30.06.2012.
Niksic – meadow и unclassified roads (284 м²) and meadow IV class (693 м²)	977	1,296	28.02.2013.
Bar – land (1,322 м²), house (150 м²) and two ancillary buildings (20 м² и 15 м²)	1,507	4,128	28.02.2013.
Niksic – residential buildings	65	2,655	30.08.2013.
Podgorica – land (502 м² и кућа 157 м²)	659	1,591	01.08.2013.
Herceg Novi – urbanized plot	300	2,346	04.11.2013.
Podgorica – urbanized plot	1,684	13,977	16.01.2014.
Budva – Perezica Do – land (4,734м²), Business premises 164 м², three garages each 14 м², four apartments (144 м², 74 м², 89 м² и 68 м²)	5,315	87,727	25.01.2014.
Budva – Buljarice land Buljarice (8,953 м²) и business premises (838 м²)	9,791	61,242	25.01.2014.
Risan – urbanized plots	425	4,322	14.04.2014.
Kotor – land (271 м²), two family residential buildings (60 м² и 36 м²) and auxiliary building (29 м²)	396	3,210	12.08.2014.
Bar – forests, fields and pastures	12,501	10,574	10.12.2014.
Podgorica – land (302 м²) and building under construction (110 м²)	412	5,277	22.12.2014.
Bar – forests	3,569	59,699	29.12.2014.
Bar – business premises (224 м² и 161 м²)	385	24,593	24.03.2015.
Total II		**907,219**	
TOTAL KB Budva (present value) I+II		**935,988**	

For 31 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not accrued entry into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2016, amounts to 936.044 thousand (EUR 7,581 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

29. OTHER ASSETS (continued)

в) Material values acquired in lieu of debt collection (continued)

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 482.168 thousand.

Estimated value of property acquired through collection of receivables:

Name of the property	Area in м^2	Book value before revaluation In RSD thousand	Estimated value In EUR thousand	Estimated value In RSD thousand	Value difference in RSD thousand
Land and business premises in Budva	7,121	174,077	832	102,729	(71,348)
Land, business premises, 3 garages and 4 apartments – Perazica Do	5,315	235,368	711	87,727	(147,641)
Land and business premises - Buljarice - Budva	9,791	119,379	496	61,242	(58,137)
2 business premises Stari Aerodrom Podgorica	97	16,051	55	6,751	(9,300)
Land and business premises Rijeka Crnojevica	50,108	135,820	805	99,395	(36,425)
Land and auxilary building Tolosi Podgorica	849	3,686	16	1,951	(1,735)
House and yard Tolosi Podgorica	883	41,469	285	35,159	(6,310)
Forests Sutomore Bar	3,569	84,085	484	59,699	(24,386)
Other (32 facilities)	-	643,023	4.180	516,137	(126,886)
TOTAL		**1,452,958**	**7,864**	**970,790**	**(482,168)**

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

Deposits and other liabilities due to banks and other financial institutions comprise:

In RSD thousand

	December 31, 2016.	December 31, 2015.
Demand deposits	2,403,693	2,542,288
Term deposits	2,304,355	2,549,287
Borrowings	5,140,505	13,774,098
Expenses deferred at the effective interest rate (deductible item)	(45,031)	(111,736)
Other	18,997	14,789
Balance as at December 31	**9,822,519**	**18,768,726**

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

During 2016 foreign currency term deposits placed by banks were deposited at interest rate of 0.01% for CHF and 0.00 to EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

Breakdown of long-term borrowings included in aforementioned line "Borrowings" is shown as follows:

		In RSD thousand
	December 31, 2016.	December 31, 2015.
EFSE	-	5,203,165
GGF	406,224	1,199,233
FMO	-	2,027,102
IFC	-	1,824,391
EBRD	4,586,114	3,301,280
Balance at December 31	**4,992,338**	**13,555,171**

Pursuant to the loan agreements executed with the creditors listed in the table above, the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained. As of December 31, 2016, the Bank was in full compliance with all the contractually defined financial ratios toward the aforelisted foreign creditors.

During 2016, the Parent Bank has repayed a line of credit due to EBRD of RSD 17,143 thousand and made an agreement for a new one, of EUR 30,000 thousand. This line of credit has better credit terms, however, it resulted in total increase in borrowings of RSD 1,284,834 thousand.

Also, during 2016 with new line of credit arrangements with EFSE, FMO and IFC, the Bank has managed to prematurely repay principal of RSD 9,054,658 thousand.

30. 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 Liabilities due to banks:

		In RSD thousand
	December 31, 2016.	**December 31, 2015.**
EFSE	148,167	218,927
The Investment-development Bank	-	-
Balance as at December 31	**148,167**	**218,927**

The maturities of long-term loans due to EFSE fund is in the period from 2016 to 2021.

Based on the agreement concluded with EFSE fund Komercijalna banka a.d. Banja Luka is obliged to meet certain financial ratios. On 31 December 2016, all agreed financial indicators were within acceptable limits.

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

		In RSD thousand
	December 31, 2016.	**December 31, 2015.**
Corporate customers		
Demand deposits	83,299,184	53,486,089
Overnight and other deposits	-	43,530
Borrowings	12,169,858	15,932,112
Earmarked deposits	9,384,129	13,077,761
Deposits for loans approved	966,862	7,412,678
Interest payable, accrued interest liabilities and other financial liabilities	755,794	858,852
	536,041	784,503
Retail customers		
Demand deposits		
Savings deposits	27,799,770	23,317,440
Earmarked deposits	33,055	67,426
Deposits for loans approved	202,047,051	196,568,930
Interest payable, accrued interest liabilities and other financial liabilities	4,059,360	2,790,869
Other deposits	2,163,128	1,797,519
	1,425,880	2,482,037
	495,847	714,876
Balance at December 31	**345,135,959**	**319,334,622**

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2016, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

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

In 2016 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 from 3 to 14 days to key policy rate less 2.05 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.00% and 3.10% annually.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 1.85 to 1.70 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.4% to 5.0%.

Retail Customer Deposits

Demand RSD savings deposits of retail customers were placed at the annual interest rate of 0.15%. Foreign currency demand deposits were placed at the annual interest rate of 0.01% and 0.05% for EUR, and 0.10% and 0.05% for other currencies.

In 2016 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 2.00% to 4.5 % annually and those in foreign currencies at rates from 0.05% to 1.9% annually for EUR and from 0.05% to 2.9% annually for other currencies.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 4.75% to 5.00% annually and those in foreign currencies at rates from 0.75% to 4.8% annually for EUR and from 0.75% to 2.90% annually for other currencies.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities which, for the purpose of compiling the balance sheet, are regarded as customers.

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

Breakdown of long-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

	December 31, 2016.	December 31, 2015.
		In RSD thousand
LEDIB 1 and 2 (Kingdom of Denmark)	18,660	39,696
Republic of Italy Government	374,774	649,398
European Investment Bank (EIB)	5,426,479	5,852,951
European Agency for Reconstruction (EAR)	194,465	280,630
KfW	2,020,456	4,865,044
Balance at December 31	**8,034,834**	**11,687,719**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2028.

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

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

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

	December 31, 2016.	December 31, 2015.
		In RSD thousand
European Investment Bank (EIB)	403,490	495,192
Government of Montenegro - Project 1000+	111,887	55,482
Development Fund of Montenegro	69,167	25,500
Balance at December 31	**584,544**	**576,174**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2031.

Komercijalna Banka a.d. Budva is not obligated to meet any financial ratios due to abovementioned loans.

31. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

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

	In RSD thousand December 31, 2016.	December 31, 2015.
Investment-Development Bank	764,751	813,868
Balance at December 31	**764,751**	**813,868**

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

Pursuant to the loan agreements with The Republic of Srpska Investment-Development Bank, Komercijalna banka a.d. Banja Luka is not obligated to meet any financial ratios.

32. SUBORDINATED LIABILITIES

	In RSD thousand December 31, 2016.	December 31, 2015.
Foreign currency subordinated liabilities	6,173,615	6,081,305
Other liabilities (accrued interest liabilities)	13,212	13,532
Expenses deferred at the effective interest rate (deductible item)	(8,437)	(16,875)
Balance at December 31	**6,178,390**	**6,077,962**

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 Bank enhanced its core capital by obtaining a subordinated loan from the International Finance Corporation (IFC). The subordinated loan received totaled RSD 6,173,615 thousand, i.e., EUR 50,000 thousand. Loan has been approved by International Finance Corporation with the maturity date December 15, 2017.

33. PROVISIONS

Provisions relate to:

	December 31, 2016.	December 31, 2015.
		In RSD thousand
Provisions for off-balance sheet items (Note 14)	493,492	575,406
Provisions for litigations (Note 38.4)	1,042,094	1,204,790
Provisions for employee benefits in accordance with IAS 19	485,921	432,532
Balance at December 31	**2,021,507**	**2,212,728**

Movements on the accounts of provisions are provided below:

	2016.				2015.			
	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 36.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off-Balance Sheet Items	Provisions for Litigations	Provisions for Employee Benefits (IAS 19)	Totall
Balance January 1	575,406	1,204,790	432,532	2,212,728	600,829	774,055	357,185	1,732,069
Increase	701,750	488,424	80,943	1,271,117	647,438	444,400	41,634	1,133,472
Provisions against actuarial gains within equity	-	-	2,347	2,347	-	-	39,843	39,843
Release	-	(650,605)	(515)	(651,120)	-	(13,725)	(6,422)	(20,147)
Reversal of provision	(784,280)	(1,020)	(30,219)	(815,519)	(673,059)	-	-	(673,059)
Other	616	505	833	1,954	198	60	292	550
Balance at December 31	**493,492**	**1,042,094**	**485,921**	**2,021,507**	**575,406**	**1,204,790**	**432,532**	**2,212,728**

a) Provisions for litigations of Parent Bank

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs.

Major items relate to:

- Provisions for arrangements with Intereksport ad, Beograd (in bankruptcy) - by letter of credit from 1991 in the amount of RSD 368,221 thousand.

The subject of the dispute has been split into two separate cases before the court - a complaint because of the settlement of obligations Intereksport ad, Beograd (bankrupt) by the Republic of Serbia as follows:

The Republic of Serbia, in the amount of USD 4,773 thousand for the principal (and USD 1,132 thousand for interest payments until the time of payment). Litigation was paid on October 10, 2016, and the amount of the provision is reduced to zero.

Based on the instructions of the Ministry of Finance of the Republic of Serbia on October 10, 2016, the Bank effected a payment of USD 7,030 thousand and 638 thousand for the costs of the dispute (USD 4,773 thousand for principal and USD 2,257 thousand of interest expense). The bank made the payment as a release in provision in the amount of RSD 649.538 thousand and the difference of RSD 125,567 thousand recognized as expense of the current period. The total amount of payments was RSD 775,105 thousand.

33. PROVISIONS (continued)

a) Provisions for litigations of Parent Bank (continued)

Upon payment, provision still contained amount for a part of the dispute towards to Intereksport ad Belgrade (in bankruptcy) in the amount of USD 1,946 thousand for the principal and USD 1,047 thousand for interest. As of December 31, 2016. The RSD equivalent for the mentioned provision is RSD 368,221 thousand.

- The Privatization Agency (Case Vektra M doo, Beograd) in the amount of RSD 226,536 thousand for interest.

Additional information about the litigation with the Privatization Agency (Case Vektra M doo, Beograd):

On the proposal of the Agency for privatization of 15 May 2015 the Commercial Court in Belgrade on 20 May 2015 issued an enforcement Iv 3750/15, which made the Bank liable to pay the amount of RSD 196,523 thousand with interest of July 4 2007 until the date of payment as well as the costs of the proceedings.

The subject of the dispute is the guarantee for good business performance in the amount of EUR 2,471 thousand issued based on the Agreement on the sale of social capital DP Zupa, concluded on January 13 2004 between the Agency for Privatization of the Republic of Serbia and the Company " Vektra M " doo, Beograd.

The Bank has received decision on execution on 25 May 2015 and upon completion of the objection to the decision the subject is transferred to the litigation.

The Bank has made a provision under the guarantee (Increases in provisions for off-balance sheet) in the amount of RSD 260,686 thousand. Accrued interest from the dispute as of December 31, 2016 in the amount of RSD 226,356 thousand was recognized in the provision for litigation.

- Provision for legal dispute initiated by individual on the basis of unjust enrichement and retention of net dividends was made in total amount of RSD 163,756 thousand.

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments. The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2016.	December 31, 2015.
Parent Bank		
Discount rate	5.00%	5.25%
Salary growth rate within the Bank	5.00%	2.00%
Employee turnover	4.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

33. PROVISIONS (continued)

b) Provisions for employee benefits (continued)

Komercijalna Banka a.d., Budva

Discount rate	4.00%	5.00%
Salary growth rate within the Bank	4.50%	2.00%
Employee turnover	6.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

Discount rate	5.00%	5.00%
Salary growth rate within the Bank	1.00%	2.00%
Employee turnover	3.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

Discount rate	5.00%	5.25%
Salary growth rate within the Bank	7.00%	2.00%
Employee turnover	5.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

34. OTHER LIABILITIES

Other liabilities include:

	In RSD thousand	
	December 31, 2016.	**December 31, 2015.**
Accounts payable	311,749	220,334
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	303,811	271,753
Advances received	66,815	54,372
Accrued interest, fees and commissions	122,932	107,971
Accrued liabilities and other accruals	462,269	243,589
Liabilities in settlement	2,028,191	1,307,290
Dividend payment liabilities	2,490,770	2,586,715
Taxes and contributions payable	97,306	69,667
Other liabilities	430,486	158,275
Balance as at December 31	**6,314,329**	**5,019,966**

Liabilities in settlement totaling RSD 2,028,191 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 864,306 thousand and foreign currency liabilities for spot transactions in the amount of RSD 752,996 thousand.

Liabilities from profit in the amount of RSD 2,490,770 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 56,467 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 1,934,065 thousand and
- liabilities from profit to employees in the amount of RSD 500.237 thousand.

With the Decision of the Bank 9520 / 3d of May 24, 2016, a part of prior year's retained earnings was distributed for dividends on preferred shares in the amount of RSD 23,531 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

During 2016, the Bank did not carry out payments based on the distribution of profits for 2014 and 2015 because of the abovementioned limitation.

35. EQUITY

35.1 Equity is comprised of:

In RSD '000

	December 31 2016	December 31 2015
Share capital	17,191,529	17,191,528
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	19,320,511	25,737,160
Revaluation reserves	6,439,985	5,688,871
Retained earnings	545,985	195,933
Loss for the period	(7,048,674)	(6,962,174)
Balance as at December 31	**59,292,420**	**64,694,402**

Capital structure In RSD '000

	December 31, 2016			December 31, 2015		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	63	17,191,529	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**	**63**	**40,034,613**	**40,034,550**	**62**	**40,034,612**
Retained earnings	**545,985**	**-**	**545,985**	**195,933**	**-**	**195,933**
Loss for the period	**(7,048,674)**	**-**	**(7,048,674)**	**(6,962,172)**	**(2)**	**(6,962,174)**
Reserves from profit and other reserves	19,320,508	3	19,320,511	25,737,155	5	25,737,160
Revaluation reserves	4,579,456	-	4,579,456	4,118,999	-	4,118,999
Revaluation reserves (debit balance)	(67,159)	-	(67,159)	(270,108)	-	(270,108)
Translational reserves (Note 35.3)	1,927,688	-	1,927,688	1,839,980	-	1,839,980
Reserves	**25,760,493**	**3**	**25,760,496**	**31,426,026**	**5**	**31,426,031**
Capital	**59,292,354**	**66**	**59,292,420**	**64,694,337**	**65**	**64,694,402**

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 participate in profit distribution. As of December 31, 2016 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

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

	Number of shares	
Share Type	**December 31 2016**	**December 31 2015**
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**

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2016 was as follows:

Shareholder	**Number of shares**	**% share**
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
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit bank, a.d., Srbija (*custody* account)	128,604	0.76
Stankom co. d.o.o., Beograd	117,535	0.70
UniCredit bank, a.d., Srbija	100,879	0.60
Evropa osiguranje a.d, Beograd in bancruptcy	86,625	0.52
UniCredit bank, a.d., Srbija	83,303	0.50
Others (1,184 shareholders)	1,337,058	7.51
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2016 was as follows:

Shareholder	**Number of shares**	**% share**
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (614 shareholders)	270,280	72.37
	373,510	**100.00**

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

Revaluation reserves totaling RSD 6,439,985 thousand (2015: RSD 5,688,871 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,133,209 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,290,188 thousand, actuarial gains of RSD 88,900 thousand and translational reserves in the amount of RSD 1,927,688 thousand.

In 2016 prior years' dividends for 2013 on preferred shares were paid in the amount of RSD 196,477 thousand to shareholder IFC.

By the Decision of the Parent Bank number 9520/3c from May 24, 2016, loss from 2015 was covered in the amount of RSD 6,299,631 thousand as follows:

- part from the retained earnings in the amount of RSD 156.019 thousand and
- reserves from the Bank's profit for estimated losses on balance sheet assets in the amount of RSD 6,143,612 thousand.

In 2016 the Parent bank in 2016 did not carry out the payment of dividends from 2014 and 2015.

Total liabilities for dividends established by distribution of profit for 2014 and 2015 and earlier years is:

- RSD 56,467 thousand for preference shares
- RSD 1,934,065 thousand ordinary shares

On November 24 2014 preference shares were exchanged into ordinary shares with a rate of 6.29%.

The calculation for the payment of dividends on preference shares according to the Annual account for the year 2016 is based on the interest rate on savings deposits in RSD, deposited for a period of twelve months and amounts to RSD 16,808 thousand.

Correction of the prior year data - loss and reserves (relate to Note 3.1)

In accordance with the requirements of IAS 8, which was related to the allocation of effects of changes in methods of income from interest, discount and premium of securities available for sale, comparative data presented in 2015 were restated as follows: Interest income from investment securities in the amount of RSD 238,273 thousand. By the same amount total net operating income and loss before and after tax are corrected. Loss for the period after all corrections is RSD 6,061,358 thousand. Correction of revaluation reserves for 2015 is carried down in the amount of 1,143,039 thousand (relate to Note 3.1).

35. CAPITAL (continued)

35.2. Earnings (loss) per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2016	2015
Loss plus preferred dividend (adjusted prior column)	(8,079,990)	(6,084,889)
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings (loss) per share (in RSD)	**(480)**	**(362)**

Basic loss per share for the year 2016 amounts to RSD 480 or 48.04% of the nominal value of ordinary shares, while for 2015 adjusted loss per share was RSD 362, or 36.18% of the nominal value of the ordinary shares. The increase of earnings per share in 2016 compared to 2015 was caused by the reported loss of the Bank's current operations in the amount of RSD 8,377,636 thousand.

Decreased (diluted) loss per share for the year 2016 amounts to RSD 480 or 48.04% of the nominal value of ordinary shares, while the 2015 loss amounted to RSD 362 or 36.18% of the nominal value of the ordinary shares.

35.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX losses/gains on the basis of shares in subsidiaries (Note 25)	Cumulative FX losses/gains on the basis of intercompany transactions	Cumulative FX losses/gains on income adjustments to the FX rate as at December 31	Total (Note 35.1)
Balance as at January 1, 2015	**1,681,795**	**70,055**	**64,192**	**1,816,042**
Increase	38,768	(9,493)	(5,337)	23,938
Balance as at December 31, 2015	1,720,563	60,562	58,855	1,839,980
Increase	107,191	(16,262)	(3,221)	87,708
Balance as at December 31, 2016	**1,827,754**	**44,300**	**55,634**	**1,927,688**

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31 2016	December 31 2015
Operations on behalf and for the account of third parties	4,466,969	4,488,679
Taken-over future liabilities	35,025,089	30,505,938
Other off-balance sheet items	512,478,491	586,833,057
Total	**551,970,549**	**621,827,674**

36.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its 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:

In RSD '000

	December 31 2016	December 31 2015
Payment guarantees (Note 4.1.1.)	4,336,212	5,337,033
Performance guarantees (Note 4.1.1.)	6,950,946	6,756,946
Letters of credit	84,143	54,165
Guaranteed bills	-	-
Balance as at December 31	**11,371,301**	**12,148,144**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

36.2 The breakdown of commitments is provided below:

In RSD '000

	December 31 2016	December 31 2015
Unused portion of approved payment and credit card loan facilities and overdrafts	9,430,627	9,116,540
Irrevocable commitments for undrawn loans	12,232,330	8,473,442
Other irrevocable commitments	1,168,323	767,812
Other commitments per contracted value of securities	822,508	-
Balance as at December 31	**23,653,788**	**18,357,794**

Irrevocable commitments for undrawn loans include internal relationship based on unused loans granted to Komercijalna Banka AD Banja Luka in the amount of RSD 370,417 thousand. Undisbursed overdraft credit cards include internal relationship based on business cards of KomBank INVEST with Parent Bank in the amount of RSD 200 thousand.

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.3 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 amount to RSD 4,466,969 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,683,170 thousand and relate to the long-term housing loans extended to retail customers. Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 512,478,291 thousand, the Group, among other things, records collateral obtained in order to secure placements and receivables in the amount of RSD 257,788,827 thousand, nominal value of securities per custody operations performed for the account of its clients (RSD 61,574,024 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 138,794,904 thousand), repo investments in Treasury bills (RSD 20,000,000 thousand), old FX savings bonds and the amount of permanent written-off balance sheet items - loans and receivables transferring to the off – balance in the amount of RSD 18,879,642 thousand. 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 takes no credit risk in respect of managed funds.

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

36.4 Litigation

Based on the expert estimate made by the Legal Department and attorneys at law representing the Group members, the Group made provisions for potential litigation losses for all the legal suits filed against its members in 2016 in the total amount of RSD 1,042,094 thousand (Note 33).

As of December 31, 2016 contingent liabilities based on legal suits filed against the Group members amounted to RSD 2,113,496 thousand (for 385 cases). The Group members' management do not expect material losses in the future on this basis above the provision made.

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 168,691,636 thousand (for 881 cases with the largest individual claim amounts). The Group members' management anticipates favorable outcome of the most lawsuits.

36.5 Commitments for operating lease liabilities are provided below:

In RSD '000

	December 31 2016	December 31 2015
Commitments due within one year	506,941	516,997
Commitments due in the period from 1 to 5 years	1,121,854	1,179,547
Commitments due in the period longer than 5 years	156,006	136,232
Total	**1,784,801**	**1,832,776**

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.6 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are undergoing continuous changes and revisions. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Group members' management believes that tax liabilities recognized in the financial statements are fairly presented.

37. RELATED PARTY DISCLOSURES

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

Legal entities are treated as related parties if one legal entity has control over another legal entity or exercises significant influence over financial and business decisions of another entity. Related parties are also entities under joint control of the same parent entity. The Parent bank discloses the Group's related party relationships 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 parties transactions were carried out on commercial and market conditions.
Consolidated transactions with affiliated entities are presented in Note 6.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

37. RELATED PARTY DISCLOSURES (continued)

37.1 Loans and receivables from related parties

	2016.			2015.		
Loans	**On-balance**	**Off-balance**	**Total**	**On-balance**	**Off-balance**	**Total**
Lasta d.o.o., Sombor	347	-	347	1,010	-	1,010
VIŠ trade d.o.o., Vršac	-	-	-	1,763	919	2,682
Advokat Ristić Saša, Kruševac	1	-	1	1	-	1
MEPLAST d.o.o., Kruševac	1	-	1	132	-	132
MENTA d.o.o., Niš	1	6,000	6,001	1	6,000	6,001
JOY M&M d.o.o., Beograd	-	-	-	1	-	1
GP Company doo	-	-	-	1	-	1
NOVA PEKARA doo UŽICE	1	-	1	1	-	1
ZLATIBORSKI KATUN BEOGRAD	1	-	1	-	-	-
Private individuals	460,580	67,428	528,008	87,565	17,140	104,705
Total	**460,932**	**73,428**	**534,360**	**90,475**	**24,059**	**114,534**

Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
Lasta d.o.o., Sombor	2,600	-	2.600	1,618	-	1,618
VIŠ trade d.o.o., Vršac	13	-	13	6	-	6
Advokat Ristić Saša Kruševac	2	-	2	1	-	1
MEPLAST d.o.o., Kruševac	733	-	733	1,240	-	1,240
MENTA d.o.o., Niš	1,237	-	1,237	516	-	516
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	-	-	12	-	12
Anfibija	-	-	-	4	-	4
JOY M&M d.o.o., Beograd	-	-	-	26	-	26
Nova pekara d.o.o., Užice	801	-	801	788	-	788
Vladan Perišić SR Elektron, Zrenjanin	21	-	21	22	-	22
Goran Damnjanović, MARVIN+AZAMIT KRUŠEVAC	7	-	7	12	-	12
MATO SZR UŽICE	-	-		1	-	1
MM Energo 2010 d.o.o., Užice	800	-	800	14	-	14
ZLATIBORSKI KATUN BEOGRAD	16	-	16	-	-	-
EBRD (Note 32)	-	4,586,114	4,586,114	-	3,301,280	3,301,280
International Finance Corporation (Note 32)	-	6,173,615	6,173,615	-	7,905,696	7,905,696
Private individuals	505,350	-	505,350	339,075	-	339,075
Total	**511,580**	**10,759,729**	**11,271,309**	**343,335**	**11,206,976**	**11,550,311**

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties

In thousand RSD

	2016.		
	Interests	**Fees**	**Total**
Income			
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	2	2
Lasta d.o.o., Sombor	61	188	249
VIŠ trade d.o.o., Vršac	14	10	24
Advokat Ristić Saša Kruševac	-	6	6
MEPLAST d.o.o., Kruševac	2	55	57
MENTA d.o.o., Niš	-	333	333
Nova pekara d.o.o., Užice	-	73	73
Goran Damnjanović MARVIN+AZAMIT, Kruševac	-	25	25
MM Energo 2010 d.o.o., Užice	-	28	28
Vladan Perišić SR Elektron, Zrenjanin	-	6	6
ZLATIBORSKI KATUN BEOGRAD	-	56	56
Private individuals	28,123	9,122	37,245
Total income	**28,200**	**9,904**	**38,104**
Expenses			
Lasta d.o.o., Sombor	2	-	2
EBRD	134,645	914	135,559
International Finance Corporation	374,220	35,354	409,574
MEPLAST d.o.o., Kruševac	1	-	1
MENTA d.o.o., Niš	1	-	1
Nova pekara d.o.o., Užice	1	-	1
MM Energo 2010 d.o.o., Užice	1	-	1
Private individuals	5,739	6,184	11,923
Total expenses	**514,610**	**42,452**	**557,062**
Net expenses	**(486,410)**	**(32,548)**	**(518,958)**

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties (continued)

	2015.		
	Interests	Fees	Total
Income			
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	1	1
Lasta d.o.o., Sombor	259	212	471
VIŠ trade d.o.o., Vršac	59	88	147
DESK d.o.o., Beograd	-	33	33
Advokat Ristić Saša Kruševac	-	6	6
MEPLAST d.o.o., Kruševac	43	46	89
MENTA d.o.o., Niš	-	308	308
MATO SZR UŽICE	-	6	6
JOY M&M d.o.o., Beograd	-	11	11
Nova pekara d.o.o., Užice	-	150	150
MM Energo 2010 d.o.o., Užice	-	3	3
Goran Damnjanović MARVIN+AZAMIT, Kruševac	-	19	19
Vladan Perišić SR Elektron, Zrenjanin	-	4	4
Singidunum University	-	1	1
EBRD	-	77	77
Private individuals	7,013	5,530	12,543
Total income	**7,374**	**6,495**	**13,869**
Expenses	**Interests**	**Fees**	**Total**
Lasta d.o.o., Sombor	7	37	44
VIŠ trade d.o.o., Vršac	-	63	63
MEPLAST d.o.o., Kruševac	5	-	5
MENTA d.o.o., Niš	5	-	5
EBRD	136,345	-	136,345
International Finance Corporation	371,601	585	372,186
Private individuals	6,967	4,636	11,603
Total expenses	**514,930**	**5,321**	**520,251**
Net expenses	**(507,556)**	**1,174**	**(506,382)**

37. RELATED PARTY DISCLOSURES (continued)

37.3 Gross and net remunerations paid to the members of the Group members's Executive Board, Board of Directors and Audit Committee were as follows:

In thousand RSD

	December 31, 2016	December 31, 2015
Gross remunerations		
Executive Board	207,762	163,191
Net remunerations		
Executive Board	169,685	129,437
Gross remunerations		
Board of Directors and Audit Committee	46,455	49,700
Net remunerations		
Board of Directors and Audit Committee	29,263	33,113

During 2016 there was a change in the Executive Board of the Parent bank and Executive Directors of Komercijalna banka a.d. Budva and Komercijalna banka a.d. Banja Luka, and on that basis the agreed fees for contract termination were paid. Since those fees had a treatment of earnings, this consequently influenced the increase in gross and net salaries.

The Group members approved loans to the members of their Executive Boards, Boards of Directors and Audit Committees in the total amount of RSD 44,508 thousand (2015: 130,200 thousand).

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDENDS

Unreconciled Outstanding Item Statements

Based on the performed regular annual inventory count at 31 December 2016, the Parent bank has unreconciled outstanding Item statements with 24 clients.

Unreconciled statements for 7 clients relate to clients who challenge the amount of receivables for advance payments, receivables arising from issued invoices, receivables from lease payments in total amount of RSD 15,186 thousand. These receivables were impaired in total amount.

For 4 clients unreconciled amounts are related to off-balance sheet items for irrevocable commitments for undrawn loans, challenge of the amount shown in the letter of intent, challenge of the balance to some guarantees on 31.12.2016 in total amount of 28,355 thousand RSD.

13 clients challenge a claim for compensation of domestic and international payment transactions, the due amount of the annuity, the manner of calculating default interest in total amount of RSD 2,113 thousand.

The amount of provisions for claims that are challenged (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The Parent bank is in the continuous process of reconciling the challenged items.

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDENDS (continued)

Unreconciled Outstanding Item Statements (continued)

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

Komercijalna banka a.d. Budva had 2 unreconciled statements in total amount of 148 thousand RSD.

Unrealized dividends

Unrealized dividends payable in 2016 amount to:

- Payable from 2014 RSD 1,934,065 thousand for preferred shares and 28,686 thousand for priority shares (Note 34.1).
- Contingent liabilities for the payment of priority dividends on the basis of the calculation for the year 2015 amounted to RSD 23,530 thousand (Note 35.1).

Contingent liabilities for the payment of priority dividends on the basis of calculation for the year 2016 amounted to RSD 16,808 thousand (Note 35.1).

39. EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period Concerning the Parent Bank:

In accordance with the judgment of the Supreme Court of Cassation Prev.no 275/2015 as of October 6, 2016 Bank's revision of litigation, which relates to repayment of the funds that have been removed from the Bank's account in favor of the client Intereksport - bankruptcy estate through enforced collection, was adopted (by the Decision on the execution of the Commercial Court in Belgrade I-166/15 of September 17, 2016), On February 24, 2017, the Bank received a payment of RSD 562.745 thousand. With the payment of the Bank's client Intereksport - bankruptcy estate Belgrade, the case has been settled since the client previously received amount of RSD 560.837 thousand. Difference represents court costs and fees in the amount of 1,907 thousand.

At the regular meeting of the Shareholders held on January 25, 2017. The decision was made on the sale of shares from the portfolio of the Bank in the following entities: Jubmes banka ad Beograd, Politika ad Beograd, Kompanija Dunav Osiguranje ado Beograd, Belgrade Stock Exchange and Trziste novca ad Beograd.

The Bank is in the process of electing a new member of the Executive Board responsible for the position of CFO (Chief Financial officer).

Events after the Reporting Period Concerning Komercijalna banka a.d.Budva:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by Komercijalna banka ad, Budva.

Events after the Reporting Period Concerning Komercijalna banka a.d. Banja Luka:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by Komercijalna banka ad, Banja Luka.

39. EVENTS AFTER THE REPORTING PERIOD (continued)

Events after the Reporting Period Concerning KomBank INVEST a.d. Beograd, Investment Fund Management Company:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by KomBank INVEST a.d., Beograd.

There were no other significant events after the date of the reporting period which would require adjustments or disclosures in the notes to the accompanying consolidated financial statements as of 31 December 2016.

40. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2016 and 2015 were as follows:

	NBS official exchange rate		NBS average exchange rate	
	2016.	2015.	2016.	2015.
USD	117.1353	111.2468	-	-
EUR	123.4723	121.6261	123.1015	120.7441
CHF	114.8473	112.5230	-	-
BAM	63.1304	62.1864	62.9408	61.7355

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 22, 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

2016 ANNUAL REPORT OF KOMERCIJALNA BANKA GROUP

March 2017

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 2016of RSD 123.1015 for EUR 1 and RSD 62.9408 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 123.4723 for EUR 1 and RSD 63.1304 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. Key Financial Ratios of the Group

DESCRIPTION	2016	2015	INDICES 2016/2015	2014	2013	2012
in RSD thousand and as a percentage						
Earnings/loss before tax	(6,533,686)	(6,893,558)	94.8	4,792,801	4,400,642	4,424,450
Net interest income	14,456,333	14,839,373	97.4	14,436,051	14,128,460	12,133,439
Net commission income	5,093,523	5,190,282	98.1	4,983,940	4,829,281	4,830,274
PROFITABILITY PARAMETERS						
ROA	(1.5%)	(1.6%)	-	1.2%	1.2%	1.4%
ROE (on total capital)	(10.5%)	(10.1%)	-	6.9%	6.8%	8.2%
Net interest margin on total assets	3.4%	3.5%	-	3.5%	3.9%	3.5%
Cost / income ratio	63.2%	60.4%	-	61.6%	59.8%	64.6%
Operating expenses	12,363,223	12,092,310	102.2	11,953,592	11,327,317	10,963,873
Net loan impairment expense	13,079,497	13,807,580	94.7	2,821,458	3,359,720	1,946,369
Consolidated balance sheet assets	428,827,608	416,461,558	103.0	430,702,109	384,296,023	342,267,358
Off-balance sheet operations	551,970,548	621,827,674	88.8	416,982,422	227,797,499	207,913,711
Loans to and receivables from banks and other financial organisations	43,216,681	17,848,897	242.1	35,733,988	35,680,426	23,410,113
Loans to and receivables from customers	166,401,008	179,422,656	92.7	203,828,648	195,554,454	194,311,220
Deposits and other liabilities to banks, other financial organisations and the central bank	9,822,519	18,768,726	52.3	26,247,764	23,227,373	14,729,145
Deposits and other liabilities to other customers	345,135,959	319,334,622	108.1	321,094,208	283,075,277	255,155,361
CAPITAL	59,292,420	64,694,402	91.7	72,100,729	67,041,696	62,073,150
Capital adequacy	26.2%	23.1%	-	18.7%	19.9%	22.4%
Number of employees	3,152	3,148	100.1	3,178	3,233	3,254
Assets per employee *(stated in RSD thousand)*	136,049	132,294	102.8	135,526	118,867	105,184
Assets per employee *(stated in EUR thousand)*	1,102	1,088	101.3	1,120	1,039	927

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:

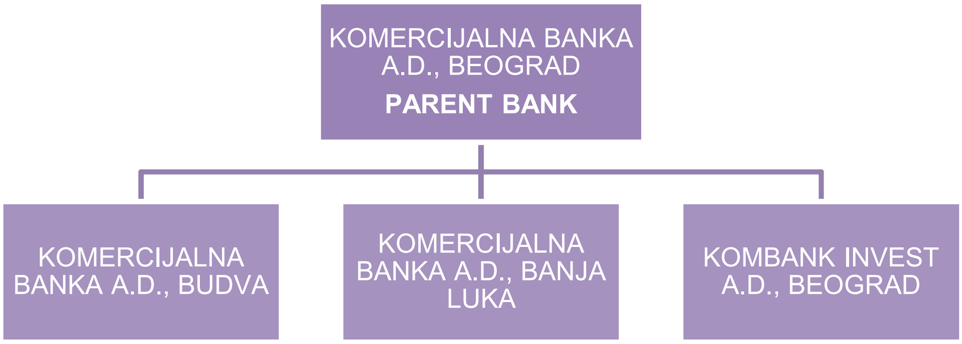
- Deposit operations (receiving and making deposits),
- Loan operations (granting and receiving loans),
- Issuing of guarantees and undertaking of other commitments,
- Debt purchase and collection,
- Issuing and recording of payment instruments,
- International payments,
- Financial leasing,
- Trading 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:

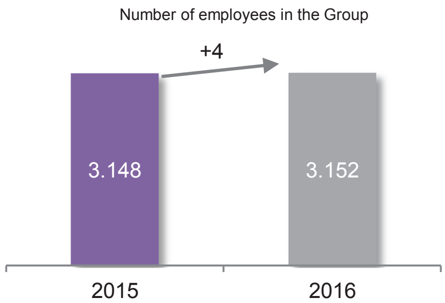
- Organising and managing open-end investment funds,
- Forming and managing closed-end investment funds,
- Managing private investment funds.

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



Employment at KB Group:

As at 31 December 2016, the Group had a total of 3,148 employees, which was 4 employees more than in the previous year. Staff cuts have been made at the Parent Bank (19), while KB Budva and KB Banja Luka increased their staff (by 13 and 10 respectively). The number of employees at KomBank Invest has remained unchanged (4).



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

Komercijalna banka AD 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 AD 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.

- 133 employees,
- 3 branches and 10 outlets

- 157 employees,
- 8 branches and 10 agencies

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 2016, the Company managed three investment funds, including:

1. KomBank IN FOND, open-end growth investment fund (equity fund).
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

Parent Bank Komercijalna banka AD 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.	Požarevac	Moše Pijade 2
15.	Jagodina	Kneginje Milice 10
16.	Loznica	Gimnazijska 1
17.	S. Mitrovica	Kralja Petra I 5-7
18.	Zaječar	Nikole Pašića 25
19.	Kikinda	Braće Tatić 7
20.	Sombor	Staparski Put 14
21.	Vršac	Trg Svetog Teodora Vršačkog 2
22.	Belgrade	Svetogorska 42 - 44
23.	K. Mitrovica	Kneza Miloša 27

- 2,858 employees,
- 23 branches and 208 outlets

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	344-23-72	32-35-121	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. Financial Position and Performance

3.1 Macroeconomic Business Conditions

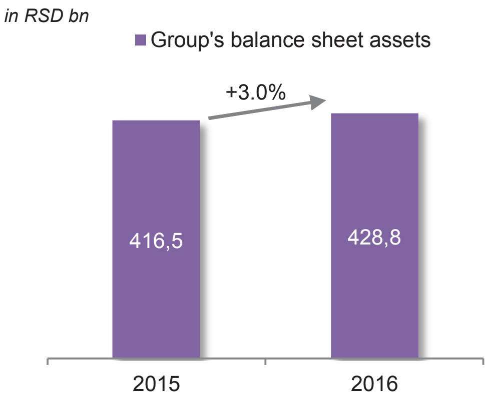
Macroeconomic business conditions relevant for the operations of the Group members according to the available information provided by relevant institutions

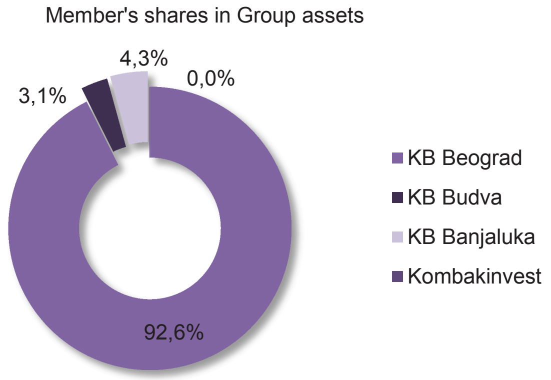
Macroeconomic indicators	SERBIA	MONTENEGRO	REPUBLIC OF SRPSKA
Gross domestic product[1]	EUR34.14 bn	EUR3.73 bn	EUR4.86 bn
GDP trends	+2.7%	+2.4%	+2.9%
Consumer price index (Dec 2016 / Dec 2015)	+1.6%	+0.9%	-0.2%
Banking sector assets	+6.6%	+9.2%	+0.01%[2]
Banking sector assets as a share of GDP	77%	102%	68%
Industrial production (Jan-Dec 2016 / Jan-Dec 2015)	+4.7%	-4.4%	+8.2%
Banking sector NPLs [3]	17.03%	10.3%	12.36%
Unemployment rate	13.8%[4]	21.1%	24.8%

3.2 Group's Performance

stated in RSD thousand

DESCRIPTION	2016	2015	2014	2013	2012
GROUP'S BALANCE SHEET ASSETS	428,827,608	416,461,558	430,702,109	385,261,548	343,170,521
Komercijalna banka a.d. Beograd	397,222,810	387,378,734	400,168,484	357,506,995	318,701,423
Komercijalna banka a.d. Budva	13,212,323	12,497,800	13,939,442	12,251,085	10,471,180
Komercijalna banka a.d.Banja Luka	18,385,992	16,469,869	16,484,378	15,397,653	13,895,956
KomBank INVEST a.d. Beograd	6,483	115,155	109,805	105,815	101,962





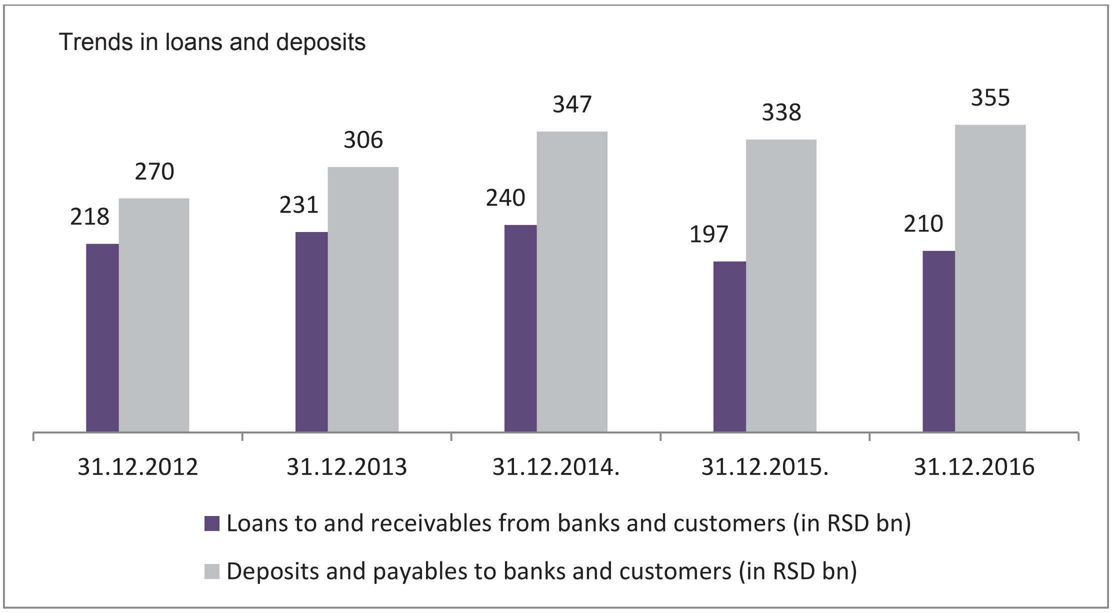
The Group's balance sheet assets in 2016 saw a modest y-o-y increase (3.0%). The Parent Bank continues to account for the largest share (all other Group members account for 7.4% of total consolidated assets).

1 Estimate
2 Figure as at 30 September 2016, relative to 31 December 2015
3 Preliminary data
4 End of Q3 2016

Loans and liabilities of banks and customers as at 31/12/2016 by Group members

stated in RSD thousand

DESCRIPTION	2016	2015	2014	2013	2012
LOANS TO AND RECEIVABLES FROM BANKS AND CUSTOMERS	209,617,689	197,271,553	239,562,636	231,234,880	217,721,333
Growth rate	6.3%	(17.7%)	3.6%	6.2%	-
Komercijalna banka a.d. Beograd	190,830,293	179,006,392	219,502,491	212,141,510	199,465,741
Komercijalna banka a.d. Budva	6,351,466	7,271,135	7,687,740	7,630,520	7,300,499
Komercijalna banka a.d. Banja Luka	12,435,930	10,994,026	12,372,405	11,462,850	10,955,093
KomBank INVEST a.d. Beograd	-	-	-	-	-
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	354,958,478	338,103,348	347,341,972	306,302,650	269,884,506
Growth rate	5.0%	(2.7%)	13.4%	13.5%	-
Komercijalna banka a.d. Beograd	329,732,740	316,177,501	325,559,503	286,908,736	252,888,160
Komercijalna banka a.d. Budva	10,982,889	9,918,868	9,987,090	8,134,122	6,963,203
Komercijalna banka a.d. Banja Luka	14,242,849	12,006,979	11,795,379	11,259,792	10,033,143
KomBank INVEST a.d. Beograd	-	-	-	-	-



The Parent Bank's share in loans to and receivables from banks and customers was 91.0%, while the shares of KB Budva and KB Banja Luka were 3.0% and 6.0% respectively. The Parent Bank also had a dominant share in deposits and payables to banks and other customers at 92.9% (KB Budva accounted for 3.1% and KB Banja Luka for 4.0%).

3.3 Consolidated Balance Sheet

The share of total consolidated balance sheet positions is not material, as they account for 1.5% 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 906.4 million),
- Internal revenue and expenses between all Group members (net negative effect of RSD 16.3 million).

The effects of estimation of the Parent Bank's equity holdings in the subsidiary banks have been recognised as impairment expense on the Parent Bank's balance sheet in the total amount of RSD 2,869.0 million (the allowance for impairment relating to the equity holding in KB Budva was RSD 1,269.1, while that relating to the equity holding in KB Banja Luka was RSD 1,599.9 million). The recognised effects of the estimates are not a basis for consolidation.

ASSETS

stated in RSD thousand

Members of Komercijalna banka Group	Aggregate assets	Adjustment for consolidation	AMOUNT of asset consolidation	Consolidated assets	% share
1	2	3	4	5=2+3-4	6
Komercijalna banka a.d. Beograd	400,017,469	2,869,029	5,663,688	397,222,810	92.6
Komercijalna banka a.d. Budva	13,650,934	-	438,611	13,212,323	3.1
Komercijalna banka a.d. Banja Luka	18,525,607	-	139,615	18,385,992	4.3
KomBank INVEST a.d. Beograd	151,840	-	145,357	6,483	0.0
TOTAL	432,345,850	2,869,029	6,387,271	428,827,608	100.0

LIABILITIES

Members of Komercijalna banka Group	Aggregate liabilities	Adjustment for consolidation	AMOUNT of liability consolidation	Consolidated liabilities	% share
1	2	3	4	5=2+3-4	6
Komercijalna banka a.d. Beograd	400,017,469	2,869,029	-459,628	403,346,126	94.1
Komercijalna banka a.d. Budva	13,650,934	-	2,740,964	10,909,970	2.5
Komercijalna banka a.d. Banja Luka	18,525,607	-	3,965,772	14,559,835	3.4
KomBank INVEST a.d. Beograd	151,840	-	140,163	11,677	0.0
TOTAL	432,345,850	2,869,029	6,387,271	428,827,608	100.0

The share of subsidiaries in the total potential of the Group is not material, as it amounts to 7.4% of the Group's consolidated assets (7.0% in 2015). Their share in the Group's liabilities is lower and stands at 5.9% (5.5% in 2015), 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 92.6% of the consolidated assets.

Group's consolidated assets as at 31 December 2016

stated in RSD thousand

NO.	BALANCE SHEET POSITION	31/12/2016	31/12/2015	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31/12/2016
	ASSETS				
1.	Cash and assets held with the central bank	61,919,102	68,895,218	89.9	14.4%
2.	Held-for-trading financial assets presented at fair value on the Income Statement	247,862	855,811	29.0	0.1%
3.	Available-for-sale financial assets	139,808,210	131,913,119	106.0	32.6%
4.	Financial assets held to maturity	368,999	109,306	337.6	0.1%
5.	Loans and receivables from banks and other financial organisations	43,216,681	17,848,897	242.1	10.1%
6.	Loans and receivables from customers	166,401,008	179,422,656	92.7	38.8%
7.	Intangible assets	394,546	251,948	156.6	0.1%
8.	Property, plant and equipment	6,251,187	6,392,007	97.8	1.5%
9.	Investment properties	2,608,051	2,899,921	89.9	0.6%
10.	Current tax assets	7,283	40,079	18.2	0.0%
11.	Available-for-sale fixed assets and assets from discontinued operations	349,523	170,667	204.8	0.1%
12.	Other assets	7,255,156	7,661,929	94.7	1.7%
	TOTAL ASSETS (items 1 to 12)	428,827,608	416,461,558	103.0	100.0%

The highest share of the Group's balance sheet assets was that of loans to and receivables from customers (38.8%), which have seen a downward trend in the past two years (down 7.3% compared with 31/12/2015). Investment in securities was also an important asset position (32.7%) and has increased in the past two years. Cash and assets held with the central bank accounted for 14.4% of total assets and were lower than in the previous reporting period; on the other hand, the share of loans to and receivables from banks and other financial organisations increased to 10.1% of balance sheet assets.

Group's consolidated liabilities as at 31 December 2016

stated in RSD thousand

NO.	BALANCE SHEET POSITION	31/12/2016	31/12/2015	INDICES	SHARE
1	2	3	4	5=(3:4)*100	31/12/2016
	LIABILITIES				
1.	Deposits and other obligations to banks, other financial organisations and the central bank	9,822,519	18,768,726	52.3	2.3%
2.	Deposits and other obligations to other customers	345,135,959	319,334,622	108.1	80.5%
3.	Subordinated obligations	6,178,390	6,077,962	101.7	1.4%
4.	Provisions	2,021,507	2,212,728	91.4	0.5%
5.	Current tax liabilities	9,027	11,905	75.8	0.0%
6.	Deferred tax liabilities	53,457	341,247	15.7	0.0%
7.	Other obligations	6,314,329	5,019,966	125.8	1.5%
8.	**TOTAL OBLIGATIONS (items 1 to 7)**	369,535,188	351,767,156	105.1	86.2%
	EQUITY				
9.	Share capital	40,034,550	40,034,550	100.0	9.3%
10.	Profit	545,985	195,933	278.7	0.1%
11.	Loss	(7,048,674)	(6,962,172)	101.2	-1.6%
12.	Reserves	25,760,493	31,426,026	82.0	6.0%
13.	Interest without controlling rights	66	65	101.5	0.0%
14.	**TOTAL EQUITY (items 9 to 13)**	59,292,420	64,694,402	91.7	13.8%
15.	**TOTAL LIABILITIES**	428,827,608	416,461,558	103.0	100.0%

On the liability side, the dominant share was that of deposits and other payables to other customers, primarily retail deposits. Deposits to customers have increased 8.1% year-on-year.

Total equity accounted for 13.8% of total equity. It was lower than on 31 December 2015, primarily due to the loss incurred by the Parent Bank and KB Budva.

Consolidated Balance Sheet as at 31 December 2016 – Banking Group members

stated in RSD thousand

	DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	GROUP TOTAL
1	2	3	4	5	6	7
	Position / ASSETS					
1.	Cash and assets held with the central bank	55,153,209	2,421,787	4,344,106	-	61,919,102
2.	Investment in securities	136,366,773	2,996,937	1,056,419	4,942	140,425,071
3.	Loans to and receivables from other financial organisations	40,418,884	490,798	2,306,999	-	43,216,681
4.	Loans to and receivables from customers	150,411,409	5,860,668	10,128,931	-	166,401,008
5.	Intangible assets	362,507	12,826	19,213	-	394,546
6.	Property, plant and equipment	5,856,458	347,360	47,319	50	6,251,187
7.	Investment properties	2,217,816	118,842	271,393	-	2,608,051
8.	Other assets	6,435,754	963,105	211,612	1,491	7,611,962
9.	**TOTAL ASSETS (1 to 8)**	397,222,810	13,212,323	18,385,992	6,483	428,827,608
	Position / LIABILITIES					
10.	Deposits and other obligations to banks and other financial org.	7,111,380	256,639	2,454,500	-	9,822,519
11.	Deposits and other obligations to other customers	322,621,360	10,726,250	11,788,349	-	345,135,959
12.	Subordinated obligations	6,178,390	-	-	-	6,178,390
13.	Provisions	1,787,294	204,768	28,647	798	2,021,507
14.	Other obligations	6,171,159	112,086	91,411	2,157	6,376,813
15.	**TOTAL OBLIGATIONS (10 to 14)**	343,869,583	11,299,743	14,362,907	2,955	369,535,188
16.	Total capital	59,476,543	(389,773)	196,928	8,722	59,292,420
17.	**TOTAL LIABILITIES (15 +16)**	403,346,126	10,909,970	14,559,835	11,677	428,827,608

I	Assets by segments	**397,222,810**	**13,212,323**	**18,385,992**	**6,483**	**428,827,608**
-	***Structure of adjusted positions***					
-	Consolidated cash	-	-438,611	-139,615	-145,349	-723,575
-	Consolidated deposits made	-4,561	-	-	-5	-4,566
-	Consolidated loans granted	-176,389	-	-	-	-176,389
-	Consolidated interest receivable	-1,580	-	-	-1	-1,581
-	Consolidated fee and other receivables	-270	-	-	-2	-272
-	Consolidated equity holdings	-5,480,888	-	-	-	-5,480,888
-	Impairment of equity holdings	2,869,029	-	-	-	2,869,029
II	**Assets on individual Balance Sheets**	**400,017,469**	**13,650,934**	**18,525,607**	**151,840**	**432,345,850**

I	Liabilities by segments	**403,346,126**	**10,909,970**	**14,559,835**	**11,677**	**428,827,608**
-	***Structure of adjusted positions***					
-	Consolidated deposits	-723,580	-4,561	-	-	-728,141
-	Consolidated loans received	-	-	-176,389	-	-176,389
-	Consolidated interest payable	-1	-	-1,580	-	-1,581
-	Consolidated fee and other payables	-2	-65	-42	-163	-272
-	Consolidated equity	1,827,754	- 3,380,881	- 3,787,761	-140,000	-5,480,888
-	Adjustment of impairment expense of equity holdings	2,869,029	-	-	-	2,869,029
-	Intra-group dividends	-644,543	644,543	-	-	-
II	**Liabilities on individual Balance Sheets**	**400,017,469**	**13,650,934**	**18,525,607**	**151,840**	**432,345,850**

III	Balance sheet sum in original currency	RSD 400,017,469 thousand	EUR 110,559 thousand	BAM 293,450 thousand	RSD 151,840 thousand	

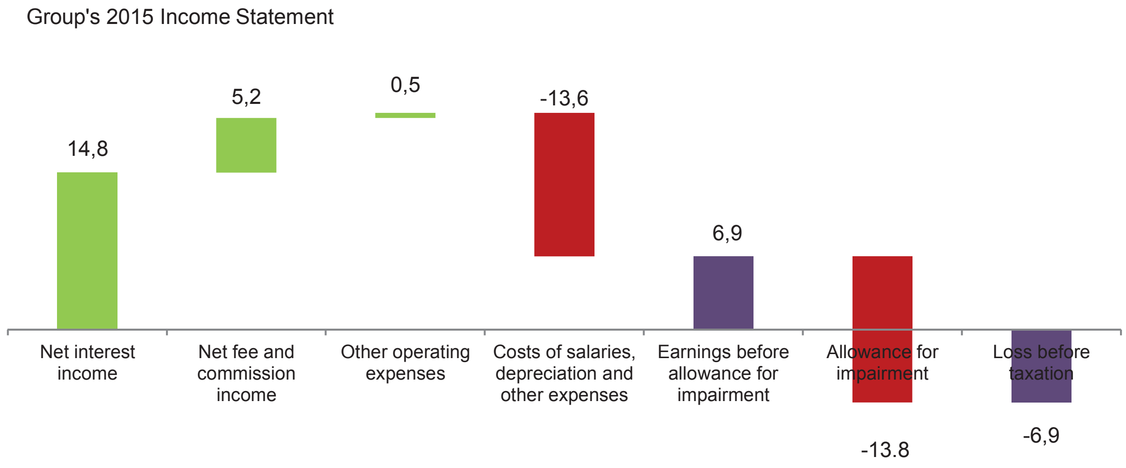
3.4 Consolidated Income Statement

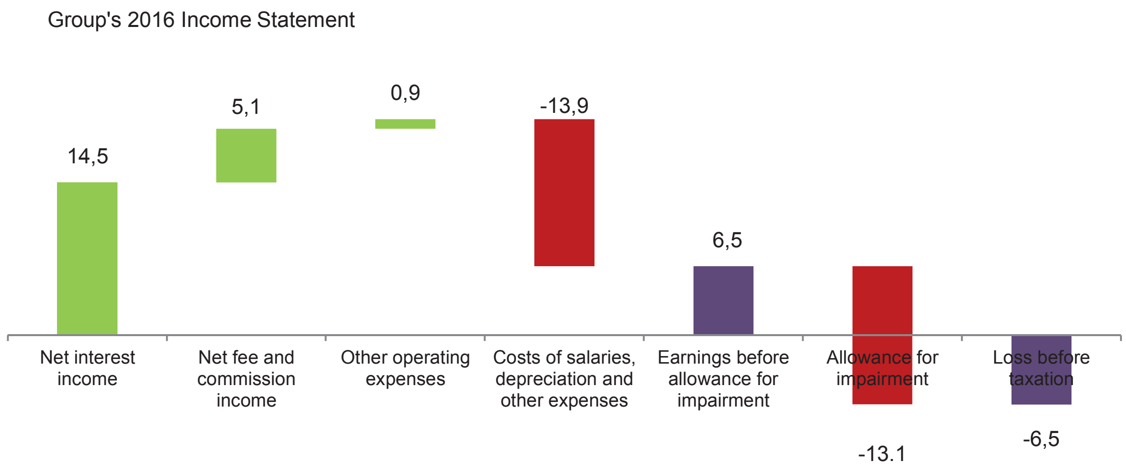
In the consolidation process it is necessary to exclude all positions on the individual Income Statements that stem from intra-group transactions, including: interest, fees, commissions and other income/expense.

Consolidated Income Statement for the period 1 January - 31 December 2016

stated in RSD thousand

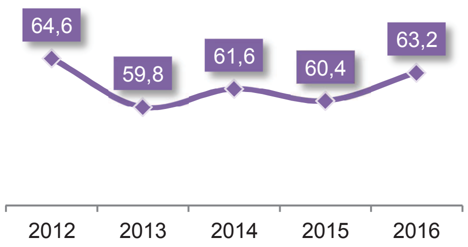
NO.	INCOME STATEMENT POSITION	31/12/2016	31/12/2015	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE			
1.1.	Interest income	17,934,819	20,531,231	87.4
1.2.	Interest expenses	(3,478,486)	(5,691,858)	61.1
1.	**Net interest income**	14,456,333	14,839,373	97.4
2.1.	Fee and commission income	6,643,289	6,391,393	103.9
2.2.	Fee and commission expenses	(1,549,766)	(1,201,111)	129.0
2.	**Net fee and commission income**	5,093,523	5,190,282	98.1
3.	Net profit from held-for-trading financial assets	76,323	4,264	1,789.9
4.	Net profit from available-for-sale financial assets	194,568	19,334	1,006.4
5.	Net income / expense from exchange differences and effects of currency clauses in agreements	6,076	(6,366)	-
6.	Net loss from investment in affiliates and joint ventures	5,143	-	-
7.	Other operating income	607,976	471,037	129.1
8.	Net expense from impairment of financial assets and credit risk-weighted off-balance sheet items	(13,079,497)	(13,807,580)	94.7
9.	**TOTAL NET OPERATING INCOME**	7,360,445	6,710,344	109.7
10.	Costs of salaries, allowances and fringe benefits	(5,059,469)	(4,693,323)	107.8
11.	Depreciation costs	(729,726)	(865,987)	84.3
12.	Other expenses	(8,104,936)	(8,044,592)	100.8
13.	**LOSS / EARNINGS BEFORE TAX (ITEMS 1 TO 12.)**	(6,533,686)	(6,893,558)	94.8
14.	Income tax	(21,318)	(22,211)	96.0
15.	Deferred tax gain	315,718	114,819	275.0
16.	Deferred tax loss	(1,844)	(108)	1,707.4
17.	**LOSS / PROFIT AFTER TAX (ITEMS 13 TO 16.)**	(6,241,130)	(6,801,058)	91.8
18.	Net profit/loss attributable to minority investors	-	(2)	-
19.	**Net profit/loss attributable to parent entity**	(6,241,130)	(6,801,056)	-



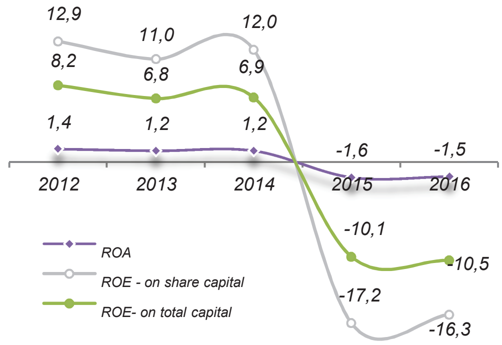


In the last two reporting periods, the Group posted loss before tax as a result of posting of financial asset impairment. The Group's pre-provision earnings were RSD 368.2 million lower year-on-year. Interest income in 2016 was lower than in 2015 (by 12.6%), as was interest expense (by 38.9%), which resulted in a slight decline in net interest income. Net fee and commission income has remained unchanged. Operating expenses and other business expenses have increased y-o-y by 2.1% (RSD 290.2 million).

Cost-Income Ratio



(as a %) Profitability ratios



Consolidated Income Statement by Group members for the period 1 January - 31 December 2016

stated in RSD thousand

	DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	GROUP TOTAL
1	2	3	4	5	6	7
1.	Interest income	16,683,969	529,622	719,495	1,733	17,934,819
2.	Interest expenses	-3,226,337	-98,103	-154,046	-	-3,478,486
3.	**Net interest income/expenses (1+2)**	13,457,632	431,519	565,449	1,733	14,456,333
4.	Fee income	6,245,829	148,842	231,988	16,630	6,643,289
5.	Fee expenses	-1,432,220	-44,378	-72,861	-307	-1,549,766
6.	**Net fee income/expenses (4+5)**	4,813,609	104,464	159,127	16,323	5,093,523
7.	Net result of investment in securities	139,540	83,562	18,778	29,011	270,891
8.	Net result of loan impairment	(12,038,510)	(995,139)	(45,848)	-	(13,079,497)
9.	Other operating income	590,040	6,434	22,717	4	619,195
I	**TOTAL NET OPERATING INCOME (3+6+7+8+9)**	6,962,311	-369,160	720,223	47,071	7,360,445
10.	Costs of salaries, allowances and fringe benefits	(4,498,212)	(254,657)	(294,797)	(11,803)	(5,059,469)
11.	Other operating expenses	(7,960,569)	(487,999)	(380,275)	(5,819)	(8,834,662)
12.	Operating expenses (10+11)	(12,458,781)	(742,656)	(675,072)	(17,622)	(13,894,131)
II	**EARNINGS/LOSS BY SEGMENTS (3+6+7+8+9+12)**	(5,496,470)	(1,111,816)	45,151	29,449	(6,533,686)
II	**Earnings/loss by segments**	**(5,496,470)**	**(1,111,816)**	**45,151**	**29,449**	**(6,533,686)**
-	***Structure of adjusted positions***					
-	Consolidated interest, net	-5,102	-	5,106	-4	-
-	Consolidated fees, net	-3,705	1,255	1,043	1,407	-
-	Exchange differences in intra-group transactions	20,944	-4,980	298	-	16,262
-	Adjustment of expense for impairment of equity holdings	2,869,029	-	-	-	2,869,029
II	**Earnings/loss on individual Income Statements**	**(8,377,636)**	**(1,108,091)**	**38,704**	**28,046**	**(9,418,977)**
III	**Earnings/loss in original currency before tax**	**RSD (8,377,636) thousand**	**EUR (9,001) thousand**	**BAM 615 thousand**	**RSD 28,046 thousand**	

4. Environmental Investment

By adopting the Environmental and Social Policy at Group level, the group set out standards for identifying risks and managing environmental and social risks in the loan granting and monitoring process. The Group is also developing environmental activities and human and labour rights protection by applying best practices in sustainable finance. Internal instruments also define the procedure for addressing and replying to complaints relating to direct or indirect environmental and social impact of operations. Under energy efficiency and renewable energy development facilities, the Group grants loans for green energy which reduces carbon emissions.

Overview of special-purpose facilities:

GGF	EUR 23,000,000 (finance for energy efficiency and renewable energy projects)
EBRD	EUR 10,000,000 (finance for energy efficiency and renewable energy projects in the private sector / small and medium-sized enterprises and local self-governments)

By categorising loans based on the level of their environmental and social risks, the Group assesses the risk of adverse impact of the financed activities on the environment. Furthermore, the Group continually monitors its clients for any extraordinary events that could adversely impact the environment, health or safety or the community in general and regularly reports its findings to the Bank's management bodies and shareholders.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group refuses to provide finance to clients whose main business activity is associated with the manufacturing of or trading in weapons and ammunition, radioactive materials and other technologies that may adversely impact the environment, thus ensuring compliance with the standards of good international practice in this field. In addition, financing of clients whose operations include production of and trading in alcoholic drinks or gambling is subject to a limit system.

5. Significant Events after the End of the Financial Year

The Parent Bank had a regular Shareholders' Meeting from 1 January 2017 to the end of February 2017. The Meeting was held on 25 January 2017 and its outcomes were as follows:

- The Shareholders' Meeting passed the Decision to sell the shares of the following legal entities included in the Parent Bank's portfolio: Jubmes banka AD Beograd, Politika AD Beograd, Kompanija Dunav osiguranje AD Beograd, Beogradska berza AD Beograd and Tržište novca AD Beograd.
- The Shareholders' Meeting adopted the Information in connection with Article 77 of the Law on Banks and the Report under Article 78 of the Law on Banks.

Other significant events after the end of the financial year are disclosed in Note 39 to Consolidated Financial Statements.

6. Planned Future Development

Operating strategies and plans for the next period are adopted at the level of Group members.

Operations of the Group's member banks in the coming period will be focused on maintaining a stable market share, with an acceptable level of credit risk. Lending will be targeted at medium-sized and small corporate clients. As regards the potential for retail finance in the coming period, the Group's member banks will focus on financing creditworthy and more affluent individuals with a sound creditor history; financing agricultural holdings according to their creditworthiness, taking into account the cyclical nature of agricultural production and frequent market price changes in agriculture; and financing of micro clients.
In the coming period, the Group will continue with a prudential, conservative lending policy, with an emphasis on loan portfolio stability and quality and with increased monitoring of clients' business operations, financed projects and collateral, in order to timely identify any red flags that may be indicative of clients' inability to pay their liabilities and of difficulties in debt collection. The strategy of the Group's member banks will remain focused on active loan collection and settlement in the earliest stages of maturity and sale of foreclosed assets. Continued rescheduling of loans to longer terms and reduction of annuities will make it easier for clients to repay loans from their regular operations. Furthermore, the banks will foreclose collateral to preserve its value until market conditions become more advantageous for their sale.

Komercijalna banka AD Beograd, as the only Serbian banks with subsidiaries in Bosnia and Herzegovina and the Republic of Montenegro, will continue performing some of its lending operations outside of the Republic of Serbia by granting cross-border loans. In this way, the Parent Bank will lend to sound clients which cannot receive loans from the subsidiaries due to capital restrictions.

The main strategic objectives of all Group members in the coming period focus on stable and sustainable operations, which will be achieved in particular through:

- Improved efficiency,
- Maintained quality of the loan portfolio,
- Increased lending to clients.

The mission and long-term strategic commitments of KB Beograd in the coming period will remain unchanged:

- A universal bank with equal focus on corporate and retail segments,
- A leading Serbian bank with regional presence.

Strategic objectives include:

- Maintaining the stability of operations and reputation,
- Sustainable growth of operations and profitability.

The Parent Bank and the other members set their objectives according to the following principles:

- Stability and long-term sustainability of operations and shareholder value;
- Prudence;
- A conservative approach.

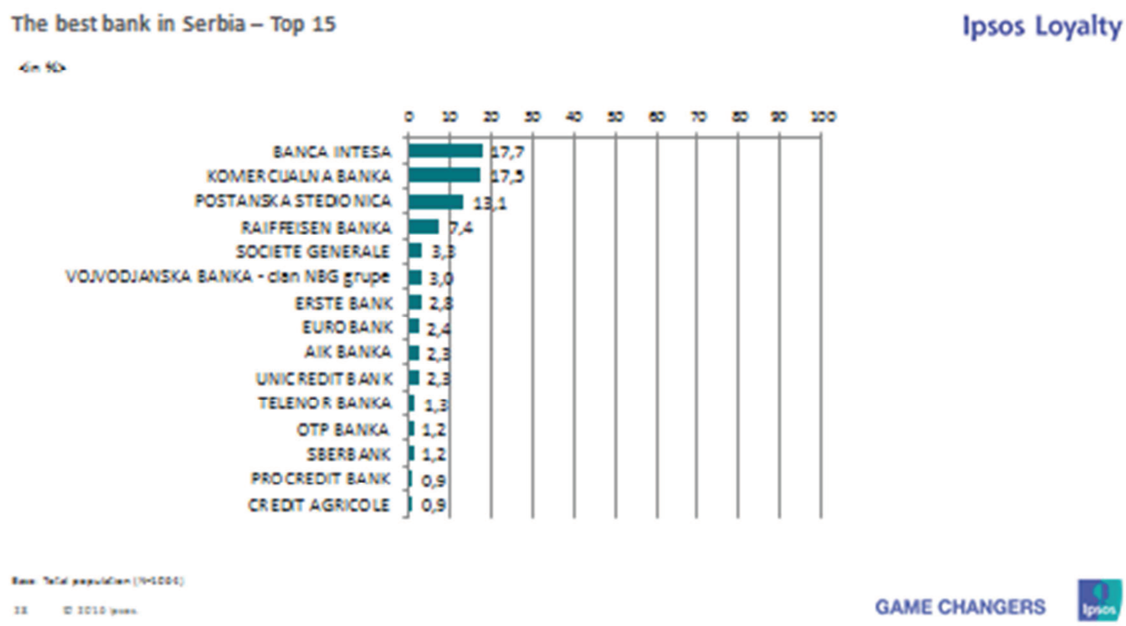
The table below provides a summary of planned operating performance of the Group's member banks in the next three years:

GROUP MEMBERS	KB BELGRADE			KB BUDVA			KB BANJA LUKA		
Plan as %	2017	2018	2019	2017	2018	2019	2017	2018	2019
Asset growth	-5.8	1.3	2.2	0.0	4.3	3.4	2.7	4.0	5.6
ROE	7.9	9.9	11.4	1.3	3.6	5.1	1.6	3.1	3.9
ROA	1.2	1.6	1.8	0.2	0.6	0.9	0.4	0.7	0.9
CIR	58.9	57.5	56.4	91.8	84.9	78.6	78.6	71.4	67.7
Interest margin on total assets	3.3	3.3	3.3	4.0	4.0	4.1	4.1	4.4	4.5

7. Research and Development

The Banking Group continually monitors developments in the banking product market. in doing so, it uses its own available staff and outsources some activities to specialised third-party public opinion polling agencies.

Market Survey: IPSOS Strategic Marketing, Banking Omnibus, November 2016



The agencies provide customer satisfaction survey data. According to their analyses, the Group is the leader in brand recognisability and service quality.

Survey results inform business decisions, in particular those relating to the development of new products and services and modification of the existing ones.

Through continual monitoring of market signals and the needs of customers and potential clients, the Group's business sectors have offered to customers new types of retail and micro loans and/or improved the existing ones and have developed a wide range of services sufficient for the local market in the segments of e-banking and payment and credit cards.

The results of research and development have been implemented in the Group's Strategy and Business Plan.

8. Redemption of Own Shares and Equity Holdings

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

9. Performance of Subsidiaries Before Consolidation

The subsidiaries Komercijalna banka AD Budva and Komercijalna banka AD Banja Luka keep their books of account and compile their financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina respectively. KomBank INVEST AD 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 instruments of the Parent Bank - Komercijalna banka a.d., Beograd and
- Relevant IASs and IFRSs.

Individual Balance Sheets of Group members before consolidation as at 31 December 2016

stated in RSD thousand

DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Cash and assets held with central bank	55,153,209	2,860,398	4,483,721	145,349
Investment in securities	136,366,773	2,996,937	1,056,419	4,942
Loans to and receivables from banks and other financial organisations	40,601,413	490,798	2,306,999	6
Loans to and receivables from customers	150,411,409	5,860,668	10,128,931	-
Investment in subsidiaries	2,611,859	-	-	-
Intangible assets	362,507	12,826	19,213	-
Property, plant and equipment	5,856,458	347,360	47,319	50
Investment properties	2,217,816	118,842	271,393	-
Other assets	6,436,025	963,105	211,612	1,493
TOTAL ASSETS	400,017,469	13,650,934	18,525,607	151,840
Deposits and other obligations to banks and other financial organisations	7,834,962	261,200	2,632,469	-
Deposits and other obligations to other customers	322,621,360	10,726,250	11,788,349	-
Subordinated obligations	6,178,390	-	-	-
Provisions	1,787,294	204,768	28,647	798
Other obligations	6,171,161	112,151	91,453	2,320
TOTAL OBLIGATIONS	344,593,167	11,304,369	14,540,918	3,118
Total equity	55,424,302	2,346,565	3,984,689	148,722
TOTAL LIABILITIES	400,017,469	13,650,934	18,525,607	151,840

Individual Income Statements of Group members before consolidation for the period 1 January - 31 December 2016

stated in RSD thousand

DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	16,689,075	529,622	719,495	1,737
Interest expenses	(3,226,341)	(98,103)	(159,152)	-
Interest gains	13,462,734	431,519	560,343	1,737
Fee and commission income	6,252,370	150,898	232,768	16,630
Fee and commission expenses	(1,435,056)	(47,688)	(74,685)	(1,714)
Fee and commission gains	4,817,314	103,210	158,083	14,916
Net profit/loss from sale of securities	139,540	83,562	18,778	29,011
Net income/expense from exchange differences and currency clause	(9,282)	2,853	(3,748)	(9)
Other operating income	578,378	8,561	26,168	13
Net loss from indirect loan write-offs and provisions	(14,907,539)	(995,139)	(45,848)	-
Operating and other business expenses	(12,458,781)	(742,657)	(675,072)	(17,622)
LOSS / EARNINGS BEFORE TAX	(8,377,636)	(1,108,091)	38,704	28,046
Income tax (current and deferred)	314,453	(8,122)	(12,921)	(854)
LOSS / EARNINGS AFTER TAX	(8,063,183)	(1,116,213)	25,783	27,192

10. Financial Instruments Relevant for Financial Performance Assessment

As at 31 December 2016 the Group had sufficient financial instruments that are essential for an assessment of its financial performance.

Loans and receivables accounted for 48.9% of consolidated assets and consisted mainly (38.8%) of loans to and receivables from customers. A detailed structure of loans to customers is presented in Note 24 to Consolidated Financial Statements. Held-for-sale financial assets accounted for 32.6% of total consolidated assets and included mainly government securities issued by the Republic of Serbia (a detailed structure is presented in Note 21 to Consolidated Financial Statements).

One the other hand, deposits were the main source of finance for the subsidiary banks, while the Parent Bank also used subordinated debt (a detailed structure is presented in Notes 30 to 32 to Consolidated Financial Statements).

Group members are well capitalised and the Group's capital adequacy ratio is 26.2%, which is well above the statutory threshold (12%).

11. Risk Management

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 put in place a comprehensive and reliable risk management system, which includes: risk management strategies, policies and procedures; specific risk management methodologies; an appropriate organisational structure; an effective and efficient system for managing all risks to which it is exposed; a sufficient internal control system; an appropriate information system; and a sufficient internal capital adequacy assessment process. Another integral element of the risk management system is the Group's Recovery Plan, as an early detection mechanism for financial distress situations in which the Group can undertake measures and apply predefined recovery options to prevent an early intervention stage in which the regulatory authority becomes actively involved to improve an already aggravated financial situation.

The Group's Risk Management Strategy and Capital Management Strategy set out the following objectives within the risk management system: minimising adverse effects on financial performance, subject to the defined framework of acceptable risk levels; maintaining the required level of capital adequacy; and development of the Group's activities in accordance with its business potential and market development to achieve competitive advantages.

The Group continually keeps up with the anticipated changes in the regulatory framework and undertakes measures to timely bring its operations in compliance with the new regulations, including implementation of Basel III standards and International Financial Reporting Standard 9 (IFRS 9). Through a clearly defined process of launching new products, the Group analyses the impact of all new services and products on future risk exposure to optimise its income and expenses for the assessed risk and to minimise any potential adverse effects on the Group's financial performance.

Details of the Group's risk management objectives and policies are provided in item 4 of the Notes to Consolidated Financial Statements.

Credit risk protection policy

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 instruments.

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 for specified 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.

To improve its risk management process, the Group has made procedural changes to the risk management function (by improving credit risk analysis, monitoring and management at the time of loan approval and the NPL workout process), including appropriate identification of potentially risky clients (Watch List), credit risk mitigation with clients who are assigned this status and measures and actions aimed at protecting the Group's interests and preventing negative effects on its financial performance and capital.

The methodology used in the calculation of impairment costs and collateral valuation to ensure consistent implementation of accounting standards and changed regulatory requirements, as well as to ensure appropriate use of collateral in the calculation of allowance for impairment and provisions for off-balance sheet items. Amendments to the Risk Management Strategy and Policy have defined the criteria for identification of bad assets, the main principles of bad asset management and the upper threshold of acceptable bad assets for the Group.

In accordance with the changed regulatory requirements, credit risk management has been improved with regard to scope of the definition of NPL, abolishment of rescheduling and changed definition and classification of rescheduled loans. To include market-relevant information in the fair value appraisal of securities, the methodology of their appraisal has also been improved.

The significant increase in the allowance for loan impairment in 2016 at the Parent Bank and at the Budva subsidiary was mainly due to the deteriorating loan portfolio quality, new NPLs, lower mortgage appraisals and initiation of bankruptcy proceedings. Another factor contributing to the increase in the total allowance for impairment was the reappraisal of fixed assets, foreclosed assets and investment properties.

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

- Credit risk and related risks;
- Liquidity risk;
- Market risk;
- Interest rate risk on the bank ledger;
- 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 based on credit risk analysis and its quantitative and/or qualitative measurement and assessment. 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.

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.

Exposure to Liquidity Risk

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

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 also manifests itself as inability of the Group to convert certain parts of its assets into liquid assets on short notice. The Group conducts analyses of funding liquidity and market liquidity. The funding 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. The funding liquidity risk is in fact the risk that the Group would not be able to settle its obligations when due as a result of withdrawal of unstable funding and inability to obtain new funding. 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.

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

Exposure to Market Risks

Market risk is the risk of negative effects on the financial performance and capital of the Group caused by changes in market variables and includes foreign exchange risk relating to all of its operations and the price risk relating to trading ledger positions.

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, in accordance with the principle of maturity transformation of assets. In 2016, the Group complied with the regulatory foreign exchange risk indicator, which is set at 20% of regulatory capital.

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. The Parent Bank and the Group members comprehensively and 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 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.

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 unforeseeable 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 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.

Investment Risk

The Group's investment risk is the risk of investment in other legal entities and in fixed assets and investment properties. The level of non-current investment is monitored in accordance with the regulations and the Group's Bodies and Committees are notified accordingly. This ensures that investments by Group members in any entity outside of the financial sector do not 10% of the Group's capital and that investments by Group members in any entity outside of the financial sector and in fixed assets and investment properties of the Group do not exceed 60% of the Group's capital.

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 is at least 10% of the Group's equity. In 2016, the Parent Bank and the Group members complied with the regulatory and internal exposure limits.

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. The Group's exposure to country risk is at an acceptable level.

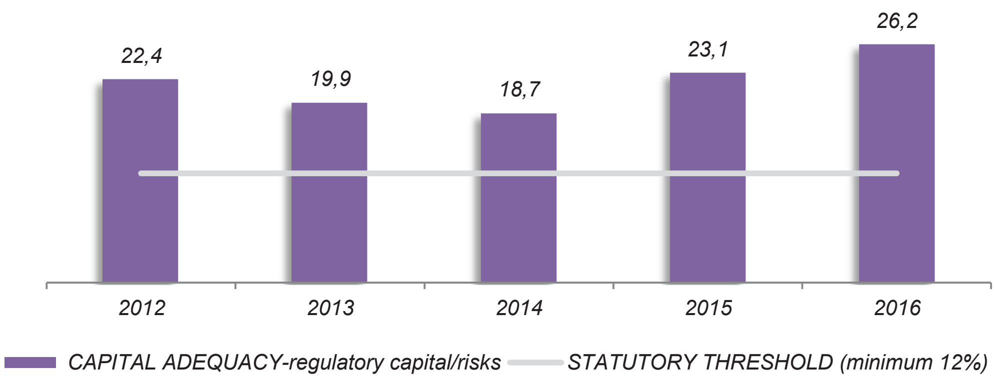
Regulatory Requirements for KB Group

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

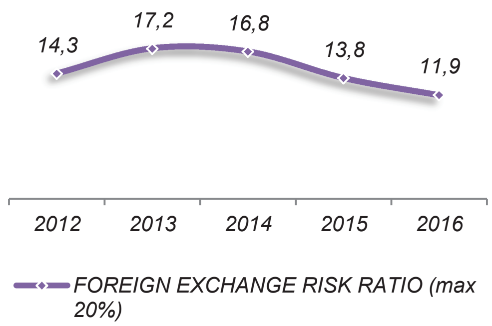
- Capital adequacy ratio,

- Large exposures,
- Investment in other legal persons and fixed assets,
- Net open position."

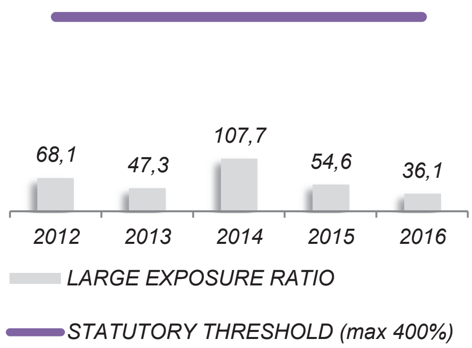
Capital adequacy



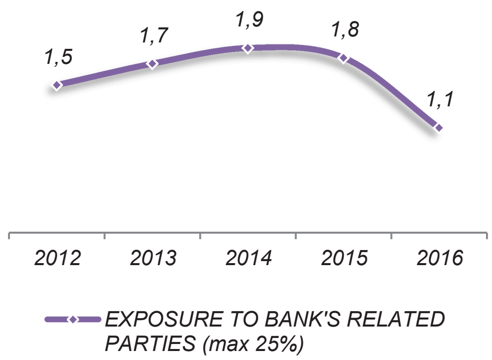
Foreign exchange risk ratio



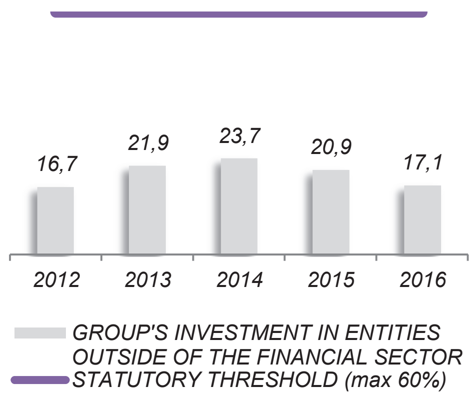
Large exposure ratio



Bank's related parties



Group investment



12. Corporate Social Responsibility

Charities and Other Actions

Komercijalna banka AD Beograd attaches special importance to activities in the area of corporate social responsibility. We value this segment because we are fully aware of its effects on customers' trust and corporate image. CSR activities have been carefully selected and the Group has actively collaborated with its partners in their implementation.

Last year, the Parent Bank continued its cooperation with the B92 Fund on its project “Together for Babies”, which provides equipment to maternity clinics in Serbia. Thanks to this charity projects, in 2016 funds were collected to equip the maternity clinics in Valjevo, Negotin, Kladovo and Belgrade (Obstetrics and Gynaecology Clinic “Narodni front” and Obstetrics and Gynaecology Clinic “Clinical Hospital Centre of Serbia”), as well as for the purchase of medical devices for the Medical Centre in Čačak.

Komercijalna banka AD Beograd has supported Serbian athletes who won medals in European and world competitions and supported Milica Mandić, Ivana Španović, Tijana Bogdanović and others in their preparations for the Olympic Games.

The Parent Bank has also helped promote young artists from the Faculty of Applied Arts by hosting art exhibitions in its KomBank Art Hall, which was also made available to already established artists to exhibit their works free of charge.

The Bank has also supported a self-employment project for socially vulnerable women placed in the Women's Shelter in Vranje and has donated money for reconstruction of Saint Sava's Temple in Belgrade. To mark the World Savings Day, on 31 October the Bank gifted “Cricket Savings” passbooks (with a balance of EUR 50) to all babies born on that day.

The Parent Bank's CSR activities were coordinated with the subsidiary banks in Montenegro and the Republic of Srpska.

In 2016, Komercijalna banka AD Budva continued with the CSR activities it had been continually implementing for years and for which it is recognised in Montenegro. The bank has traditionally been rewarding the most gifted pupils of Montenegrin primary schools with a scholarship as part of its "Growing Together" annual awards. In cooperation with the Central Bank of Montenegro, it has also gifted savings passbooks with an initial savings balance to babies born during the Savings Week.

In 2016, Komercijalna banka AD Banja Luka provided funding for the following: equipping the Parents' House in Banja Luka; purchase of a NIV device for the ALS Patients' Association; a donation for the Gajić family for the treatment of their daughter, who suffers from Lafora disease; roof reconstruction at the primary school "Jovan Dučić"; and a donation in the fundraiser dinner "To Brave Hearts with Love" hosted by the Centre for the Prevention of Developmental Disorders "Mother and Child." In addition, the bank also provided funding for the "ELBRUS 2016" project of the Mountaineering and Alpine Climbing Club "SUMMIT" OF Banja Luka and for the attendance of competitions and activities of the Floorball Club "Gromovi."

Corporate Governance Rules

Corporate governance rules are based on the relevant legislation (Law on Banks and Law on Companies). The Corporate Governance Code sets out the principles of corporate governance which must be observed by corporate governance bodies in their work. The aim of the Code is to introduce good business practices and establish high corporate governance standards, which should reinforce the trust of shareholders, investors, clients and other shareholders. A good corporate governance practice essentially ensures consistency of the control system, protection of shareholders' interests, timely provision of all relevant information on operations and full transparency through public access of companies' financial statements.

The Parent Bank operates in compliance with the Corporate Governance Code of the Serbian Chamber of Industry and Commerce adopted by the Assembly of the Serbian Chamber of Industry and Commerce, in accordance with the Decision on Implementation of the Corporate Governance Code of the Serbian Chamber of Industry and Commerce passed by the Bank's Executive Board on 9 April 2013.

Komercijalna banka AD Budva operates in compliance with the Code of Business Ethics adopted by the Assembly of the Chamber of Economy of Montenegro (*Official Gazette of the Republic of Montenegro* No. 45/11 of 9 September 2011), which stipulates that its provisions are binding on all economic operators registered in Montenegro.

Komercijalna banka AD Banja Luka operates in compliance with the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska pursuant to Article 309 of the Law on Companies (*Official Gazette of the Republic of Srpska* Nos. 127/98, 58/09, 100/11 and 67/13) and Article 260 of the Law on Securities Market (*Official Gazette of the Republic of Srpska* Nos. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

KomBank INVEST AD Beograd applies the Operating Rules approved by the Securities Commission in accordance with Article 17 of the Law on Investment Funds (*Official Gazette of the Republic of Serbia* Nos. 46/2006, 51/2009.31/2011 and 115/2014).

The powers and authorities of all bodies of the Group's members are based on relevant legislation and defined by internal instruments. Corporate governance rules are implemented through internal instruments and there are no derogations in their application.

Signed on behalf of Komercijalna banka AD Beograd:

Slađana Jelić Deputy Chairperson of the Executive Board	Alexander Picker, PhD Chairperson of the Executive Board

KOMERCIJALNA BANKA
AD Beograd

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Business Registers Agency: 10156/2005
Account No. 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. 31/2011,112/15 i 108/16) 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 2016.

KOMERCIJALNA BANKA AD BEOGRAD

Deputy Chief Executive Officer

Slađana Jelić

Chief Executive Officer

Alexander Picker

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF SHAREHOLDERS
Number: 9760/3
Belgrade, 27.04.2017

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd (the revised text) and in accordance with Articles 27 and 33 of the Law on Accounting, Article 61 of the Law on Banks and Article 50 of the Law on Money Market, the General Meeting of the Bank's Shareholders, adopted at its regular session held on 27.04.2017 passed the following

D E C I S I O N
TO ADOPT THE ANNUAL REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP WITH THE EXTERNAL AUDITOR'S OPINION FOR 2016

I

We hereby adopt the 2016 Annual Report of Komercijalna banka AD Beograd Group, with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd), the text of which is incorporated in this Decision by reference.

II

We hereby adopt the 2016 Consolidated Financial Statements of Komercijalna banka AD Beograd Group, with the report and opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd):

1. Balance Sheet – consolidated as at 31 December 2016,
2. Income Statement – consolidated for the period from 1 January to 31 December 2016,
3. Statement of Other Comprehensive Income – consolidated for the period from 1 January to 31 December 2016,
4. Cash Flow Statement – consolidated for the period from 1 January to 31 December 2016,
5. Statement of Changes in Equity – consolidated for the period from 1 January to 31 December 2016, and
6. Notes to 2016 Consolidated Financial Statements,

in the wording that forms an integral part of this decision.

III

This Decision becomes effective on the day of its passing.

CHAIRPERSON OF THE GENERAL
MEETING OF THE BANK'S SHAREHOLDERS

Jovanka Kosanović