KOMERCIJALNA BANKA AD BEOGRAD

ANNUAL REPORT OF A PUBLIC COMPANY FOR THE YEAR 2017

Belgrade, April 2018

CONTENTS

To be filled out by the bank
Registration number: 0 7 7 3 7 0 6 8 Activity code: 6 4 1 9 Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD
Bank's registered office: Beograd, 14, Svetog Save Street

BALANCE SHEET

as of 31.12.2017.

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year	
								31.12.2016.	**01.01.2016.**
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 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and balances with central banks	0	0	0	1	19	49.840.887	55.153.209	-
	Pledged funds	0	0	0	2		-	-	-
120, 220, 125, 225	Financial assets at fair value through profit or loss held for trading	0	0	0	3	20	5.269.709	242.920	-
121, 221	Financial assets initially recognized at fair value through profit or loss	0	0	0	4		-	-	-
122, 222, parts of 129, 229	Financial assets available for sale	0	0	0	5	21	112.019.058	136.123.853	-
124, 224, parts of 129, 229	Financial assets held to maturity	0	0	0	6	22	-	-	-
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 593 as deductible items (SSKR - SS code 1 (except code 17), code 70 and parts of codes 71 and 74) and parts of 009, 029, 059, 089, 199 and 299	Loans and advances to banks and other financial institutions	0	0	0	7	23	29.543.789	40.601.413	-
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 593 as deductible items (SSKR - SS code 17 and all other codes except the code 70 and parts of codes 71 and 74) and parts of 029, 069, 089, 199 and 299	Loans and advances to clients	0	0	0	8	24	153.897.367	150.411.409	-
123, 223	Changes in fair value of items that are the subject of hedging	0	0	0	9		-	-	-
126, 226	Receivables from financial derivatives held for hedging	0	0	1	0		-	-	-
130, 131, 230, 231, part of 139 and 239	Investments in associates and joint ventures	0	0	1	1		-	-	-
132, 232, part of 139 and 239	Investments in subsidiaries	0	0	1	2	25	2.611.859	2.611.859	-
33	Intangible assets	0	0	1	3	26	460.263	362.507	-
34	Property, plant and equipment	0	0	1	4	27	5.655.248	5.856.458	-
35	Investment property	0	0	1	5	28	1.988.608	2.217.816	-
034 and part of 039	Current tax assets	0	0	1	6		-	-	-
37	Deferred tax assets	0	0	1	7	18	857.096	-	-
36	Non-current assets held for sale and assets of discontinued operations	0	0	1	8	29	241.148	183.170	-
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 029, 089, 139, 199, 239 and 299	Other assets	0	0	1	9	30	6.798.506	6.252.855	-
	TOTAL ASSETS (from 0001 to 0019)	0	0	2	0		**369.183.538**	**400.017.469**	**-**

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year	
								31.12.2016.	01.01.2016.
1	2	3				4	5	6	7
411, 416, 511, 516	**LIABILITIES** Financial liabilities at fair value through profit or loss held for trading	0	4	0	1	31	7.845	-	-
415, 515	Financial liabilities initially recognized at fair value through profit or loss	0	4	0	2		-	-	-
417, 517	Liabilities from financial derivatives held for hedging	0	4	0	3		-	-	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 1 (without code 17) and code 70 and parts of codes 71 and 74)	Deposits and other liabilities to banks, other financial institutions and the central bank	0	4	0	4	32	4.532.505	7.834.962	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (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	0	4	0	5	33	292.471.640	322.621.360	-
418, 518	Changes in fair value of items that are the subject of hedging	0	4	0	6		-	-	-
410, 412, 423, 496, 510, 512, 523, 596 and 127 as deductible items	Issued own securities and other borrowed funds	0	4	0	7		-	-	-
424, 425, 482, 497, 524, 525, 582, 597 and parts of 193 and 293 as deductible items	Subordinated liabilities	0	4	0	8	34	-	6.178.390	-
450, 451, 452, 453, 454	Provisions	0	4	0	9	35	1.368.051	1.787.294	-
46	Liabilities from non-current assets held for sale and assets of discontinued operations	0	4	1	0		-	-	-
455	Current tax liabilities	0	4	1	1		-	-	-
47	Deferred tax liabilities	0	4	1	2	18	-	23.592	-
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0	4	1	3	36	7.543.442	6.147.569	-
	TOTAL LIABILITIES (from 0401 to 0413)	0	4	1	4		**305.923.483**	**344.593.167**	**-**
80	EQUITY Equity	0	4	1	5	37	40.034.550	40.034.550	-
128	Own shares	0	4	1	6		-	-	-
83	Profit	0	4	1	7	37	8.137.249	349.698	-
84	Loss	0	4	1	8	37	-	8.063.183	-
81, 82 - credit balance	Reserves	0	4	1	9	37	15.088.256	23.103.237	-
81, 82 - debit balance	Unrealized losses	0	4	2	0		-	-	-
	Shares without control	0	4	2	1		-	-	-
	TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0	4	2	2		**63.260.055**	**55.424.302**	**-**
	TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0	4	2	3		**-**	**-**	**-**
	TOTAL LIABILITIES (0414 + 0422 - 0423)	0	4	2	4		**369.183.538**	**400.017.469**	**-**

In Belgrade,

on 15.03.2018.

Legal representative of the bank

To be filled out by the bank
Registration number: 0 7 7 3 7 0 6 8 Activity code: 6 4 1 9 Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD
Bank's registered seat: Beograd, 14, Svetog Save Street

INCOME STATEMENT

in period from January 1st to December 31st, 2017.

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	8	14.052.436	16.689.075
60	Interest expenses	1	0	0	2	8	1.606.239	3.226.341
	Net interest profit (1001-1002)	1	0	0	3		**12.446.197**	**13.462.734**
	Net interest loss (1002-1001)	1	0	0	4		**-**	**-**
71	Fee and commission income	1	0	0	5	9	6.700.216	6.252.370
61	Fee and commission expenses	1	0	0	6	9	1.617.990	1.435.056
	Net fee and commission income (1005 - 1006)	1	0	0	7		**5.082.226**	**4.817.314**
	Net fee and commission expenses (1006 - 1005)	1	0	0	8		**-**	**-**
720-620+771-671+774-674	Net gains on financial assets held for trading	1	0	0	9	10	103.798	70.478
620-720+671-771+674-774	Net loss on financial assets held for trading	1	0	1	0		-	-
775-675+770-670	Net gains from risk protection	1	0	1	1		-	-
675-775+670-770	Net loss from risk protection	1	0	1	2		-	-
725-625+776-676	Net gains on financial assets that are initially recognized at fair value through profit or loss	1	0	1	3		-	-
625-725+676-776	Net losses on financial assets that are initially recognized at fair value through profit or loss	1	0	1	4		-	-
721-621	Net profit from sale of securities	1	0	1	5	11	44.323	69.062
621-721	Net loss from sale of securities	1	0	1	6		-	-
78-68	Net income from foreign exchange differences and effects of contracted foreign currency clause	1	0	1	7		-	-
68-78	Net foreign exchange losses and the effects of contracted foreign currency clause	1	0	1	8	12	56.358	9.282
723-623	Net gains on investments in associates and joint ventures	1	0	1	9	13	306	5.143
623-723	Net loss on investments in associates and joint ventures	1	0	2	0		-	-
724, 74, 752, 753, 76 (except 760, 769), 772, 773	Other operating income	1	0	2	1	13	937.777	573.235
750-650+751-651+760-660	Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1	0	2	2	14	17.883	-

650-750+651-751+660-760	Net impairment losses of financial assets and off-balance sheet credit risk items	1	0	2	3	14	-	14.907.539
	NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1	0	2	4		**18.576.152**	**4.081.145**
	NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1	0	2	5		**-**	**-**
63, 655, 755	Saleries, wages, and other personnel indemnities	1	0	2	6	15	4.520.197	4.498.212
642	Depreciation costs	1	0	2	7	16	563.582	666.025
64 (except 642), 624, 652, 653, 66 (except 660, 669), 672, 673	Other expenses	1	0	2	8	17	6.305.123	7.294.544
	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1	0	2	9		**7.187.250**	**-**
	LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1	0	3	0		**-**	**8.377.636**
850	Tax on profit	1	0	3	1		-	-
861	Deffered tax income for the period	1	0	3	2	18	1.335.828	314.453
860	Deffered tax expense for the period	1	0	3	3	18	405.710	-
	PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	4		**8.117.368**	**-**
	LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	5		**-**	**8.063.183**
769-669	NET PROFIT OF DISCONTINUED OPERATIONS	1	0	3	6		-	-
669-769	NET LOSS OF DISCONTINUED OPERATIONS	1	0	3	7		-	-
	NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1	0	3	8		**8.117.368**	**-**
	NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1	0	3	9		**-**	**8.063.183**
	Net profit which belongs to owners of parent legal entity	1	0	4	0		-	-
	Net profit which belongs to minority investors	1	0	4	1		**-**	**-**
	Net loss which belongs to owners of parent legal entity	1	0	4	2		-	-
	Net loss which belongs to minority investors	1	0	4	3		-	-
	Earnings per share							
	Basic earnings per share (in RSD, rounded)	1	0	4	4		482	-
	Diluted earnings per share (in RSD, rounded)	1	0	4	5		482	-

Legal representative of the bank

In Belgrade,
on 15.03.2018.

To be filled out by the Bank		
Registration number: 0 7 7 3 7 0 6 8	**Activity code: 6 4 1 9**	**TIN: 1 0 0 0 0 1 9 3 1**
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF OTHER COMPREHENSIVE INCOME
in period from 01.01.2017. to 31.12.2017.

(in RSD thousand)

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
	PROFIT FOR THE PERIOD	2	0	0	1		**8.117.368**	-
	LOSS FOR THE PERIOD	2	0	0	2		-	**8.063.183**
820	Other result for the period Components of other result that cannot be reclassified to profit or loss: Increase of revaluation reserves against intangible assets and fixed assets	2	0	0	3	18.6.	-	58.580
820	Decrease of revaluation reserves against intangible assets and fixed assets	2	0	0	4		-	-
822	Actuarial gains	2	0	0	5	35; 18.6.	24.648	-
822	Actuarial losses	2	0	0	6	35; 18.6.	-	3.626
825	Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	0	7		-	-
825	Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	0	8		-	-
821	Components of other result that can be reclassified to profit or loss: Positive effects of changes in fair value based on financial assets available for sale	2	0	0	9	18.6.	1.823	626.803
823	Unrealized losses arising from securities available for sale	2	0	1	0	18.6.	241.847	-
824	Gains from hedging instruments in a cash flow hedge	2	0	1	1		-	-
824	Losses from hedging instruments in a cash flow hedge	2	0	1	2		-	-
826	Positive cumulative differences arising from currency conversions in foreign exchange operations	2	0	1	3		-	-
826	Negative cumulative differences arising from currency conversions in foreign exchange operations	2	0	1	4		-	-
826	Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	1	5		-	-
826	Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	1	6		-	-
82	Tax-related profit that pertains to other result for the period	2	0	1	7	18.6.	36.277	544
82	Tax-related loss that pertains to other result for the period	2	0	1	8	18.6.	85.708	97.093
	Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2	0	1	9		-	**585.208**
	Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2	0	2	0		**264.807**	-
	TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2	0	2	1		**7.852.561**	-
	TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0	2	0	2	2		-	**7.477.975**
	Total positive result for the period that pertains to parent entity	2	0	2	3		-	-
	Total positive result for the period that pertains to owners without control rights	2	0	2	4		-	-
	Total negative result for the period that pertains to parent entity	2	0	2	5		-	-
	Total negative result for the period that pertains to owners without control rights	2	0	2	6		-	-

In Belgrade,

on 15.03.2018.

Legal representative of the Bank

To be filled out by Bank		
Registration number: 0 7 7 3 7 0 6 8	**Activity code: 6 4 1 9**	**TIN: 1 0 0 0 0 1 9 3 1**
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF CHANGES IN EQUITY
Over the period from 01.01. to 31.12.2017.

(in RSD thousand)

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2-3+4+5+6-7+8-9)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)<0
	1		2		3		4		5		6		7		8		9		10		11
1.	**Opening balance as of January 1st of preceding year**	4001	17.191.466	4029		4057	22.843.084	4085	24.935.440	4113	3.977.808	4127	227.944	4141	179.550	4175	6.061.358	4209	62.838.046	4215	-
2.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4058		4086		4114		4128		4142		4176		x	x	x	x
3.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059		4087		4115		4129		4143		4177		x	x	x	x
4.	**Adjusted opening balance as of January 1st of preceding year (number 1+2-3)**	4004	17.191.466	4032	0	4060	22.843.084	4088	24.935.440	4116	3.977.808	4130	227.944	4144	179.550	4178	6.061.358	4210	62.838.046	4216	-
5.	Total positive other result for the period	x	x	x	x	x	x	x	x	4117	338.688	4131	222.857	x	x	x	x	x	x	x	x
6.	Total negative other result for the period	x	x	x	x	x	x	x	x	4118		4132		x	x	x	x	x	x	x	x
7.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4145		x	x	x	x	x	x
8.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4179	8.063.183	x	x	x	x
9.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4146		4180		x	x	x	x
10.	Transfer from reserves to result due to release of reserves - decrease	x	x	x	x	x	x	x	x	x	x	x	x	4147		4181		x	x	x	x
11.	Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089		x	x	x	x	4148		4182		x	x	x	x
12.	Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090		x	x	x	x	4149		4183		x	x	x	x
13.	Profit distribution – increase	4007		4035		4063		4091		x	x	x	x	4150		4184		x	x	x	x
14.	Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092	6.143.612	x	x	x	x	4151	156.019	4185	6.299.631	x	x	x	x
15.	Dividend payments	4009		4037		4065		4093		x	x	x	x	4152	23.531	4186		x	x	x	x
16.	Other – increase	4010		4038		4066		4094		x	x	x	x	4153	349.698	4187	238.273	x	x	x	x
17.	Other – decrease	4011		4039		4067		4095		x	x	x	x	4154		4188		x	x	x	x
18.	**Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0**	4012	0	4040	0	4068	0	4096		x	x	x	x	4155	170.148	4189	0	x	x	x	x
19.	**Total transactions with owners (number 11-12+13-14-15+16-17) < 0**	4013	0	4041	0	4069	0	4097	6.143.612	x	x	x	x	4156		4190	6.061.358	x	x	x	x
20.	**Balance as of December 31st of preceding year (number 4+5-6+7+8+9-10+18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)**	4014	17.191.466	4042	0	4070	22.843.084	4098	18.791.828	4119	4.316.496	4133	5.087	4157	349.698	4191	8.063.183	4211	55.424.302	4217	-

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2-3+4+5+6-7+8-9)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)<0
	1		2		3		4		5		6		7		8		9		10		11
21.	**Opening balance as of January 1st of the current year**	4015	17.191.466	4043		4071	22.843.084	4099	18.791.828	4120	4.316.496	4134	5.087	4158	349.698	4192	8.063.183	4212	55.424.302	4218	-
22.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135		4159		4193		x	x	x	x
23.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136		4160		4194		x	x	x	x
24.	**Adjusted opening balance as of January 1st of the current year (number 21+22-23)**	4018	17.191.466	4046	0	4074	22.843.084	4102	18.791.828	4123	4.316.496	4137	5.087	4161	349.698	4195	8.063.183	4213	55.424.302	4219	-
25.	Total positive other result for the period	x	x	x	x	x	x	x	x	4124		4138	1.549	x	x	x	x	x	x	x	x
26.	Total negative other result for the period	x	x	x	x	x	x	x	x	4125	286.237	4139		x	x	x	x	x	x	x	x
27.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4162	8.117.368	x	x	x	x	x	x
28.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4196		x	x	x	x
29.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4163		4197		x	x	x	x
30.	Transfer from reserves to result due to release of reserves – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4164		4198		x	x	x	x
31.	Transactions with owners, recorded directly in equity – increase	4019		4047		4075		4103		x	x	x	x	4165		4199		x	x	x	x
32.	Transactions with owners, recorded directly in equity – decrease	4020		4048		4076		4104		x	x	x	x	4166		4200		x	x	x	x
33.	Profit distribution – increase	4021		4049		4077		4105		x	x	x	x	4167		4201		x	x	x	x
34.	Profit distribution, and/or loss coverage – decrease	4022		4050		4078		4106	7.730.293	x	x	x	x	4168	332.890	4202	8.063.183	x	x	x	x
35.	Dividend payments	4023		4051		4079		4107		x	x	x	x	4169	16.808	4203		x	x	x	x
36.	Other – increase	4024		4052		4080		4108		x	x	x	x	4170	19.881	4204		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 (number 31-32+33-34-35+36- 37) ≥ 0**	4026	0	4054	0	4082	0	4110	0	x	x	x	x	4172	0	4206	0	x	x	x	x
39.	**Total transactions with owners (number 31-32+33-34-35+36- 37) < 0**	4027	0	4055	0	4083	0	4111	7.730.293	x	x	x	x	4173	329.817	4207	8.063.183	x	x	x	x
40.	**Balance as of December 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)**	4028	17.191.466	4056	0	4084	22.843.084	4112	11.061.535	4126	4.030.259	4140	3.538	4174	8.137.249	4208	0	4214	63.260.055	4220	-

In Belgrade,

on 15.03.2018.

Legal representative of the Bank

To be filled out by the bank		
Registration number : 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat : Beograd, 14, Svetog Save Street		

CASH FLOW STATEMENT

in period from 01.01. to 31.12.2017.

(in RSD thousand)

ITEM		ADP code				Current year	Previous year
1		2				3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES							
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3	0	0	1	**23.708.278**	**24.168.618**
1.	Inflows from Interest	3	0	0	2	15.548.877	17.682.430
2.	Inflows from allowances	3	0	0	3	6.685.133	6.248.817
3.	Inflows from other operating income	3	0	0	4	1.465.131	221.659
4.	Inflows from dividends and participation in profit	3	0	0	5	9.137	15.712
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3	0	0	6	**14.476.414**	**16.181.571**
5.	Outflows from interest	3	0	0	7	2.077.828	4.299.376
6.	Outflows from allowances	3	0	0	8	1.604.753	1.434.203
7.	Outflows from gross salleries, wages and other personnel indemnities	3	0	0	9	4.720.871	4.399.017
8.	Outflows from taxes, contributions and other obligations from income	3	0	1	0	872.611	805.896
9.	Outflows from other operating expenses	3	0	1	1	5.200.351	5.243.079
III.	**Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)**	3	0	1	2	**9.231.864**	**7.987.047**
IV.	**Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)**	3	0	1	3	**-**	**-**
V.	**Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)**	3	0	1	4	**8.861.801**	**35.586.694**
10.	Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3	0	1	5	-	-
11.	Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3	0	1	6	8.861.801	12.275.923
12.	Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3	0	1	7	-	-
13.	Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients	3	0	1	8	-	23.310.771
14.	Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3	0	1	9	-	-
15.	Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3	0	2	0	-	-
VI.	**Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)**	3	0	2	1	**18.262.489**	**15.390.102**
16.	Increase in loans and advances to banks, other financial institutions, central bank and other clients	3	0	2	2	4.081.054	15.390.102
17.	Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3	0	2	3	-	-
18.	Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3	0	2	4	-	-
19.	Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients	3	0	2	5	14.181.435	-
20.	Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3	0	2	6	-	-
21.	Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3	0	2	7	-	-
VII.	**Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)**	3	0	2	8	**-**	**28.183.639**
VIII.	**Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)**	3	0	2	9	**168.824**	**-**
22.	Profit tax paid	3	0	3	0	-	-
23.	Dividends paid	3	0	3	1	-	119.477
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3	0	3	2	**-**	**28.064.162**
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3	0	3	3	**168.824**	**-**

ITEM	ADP code				Current year	Previous year
1	2				3	4
B. CASH FLOWS FROM INVESTING ACTIVITIES						
I. Cash inflows from investing activities (од 3035 до 3039)	3	0	3	4	**54.583.075**	**38.321.634**
1. Inflows from long-term investment in securities	3	0	3	5	54.463.556	38.321.128
2. Inflows from sale of investments in subsidiaries and associates and joint ventures	3	0	3	6	-	-
3. Inflows from sale of intangible assets, property, plant and equipment	3	0	3	7	637	506
4. Inflow of sale of investment property	3	0	3	8	118.882	-
5. Other inflows from investing activities	3	0	3	9	-	-
II. Cash outflows from investing activities (from 3041 to 3045)	3	0	4	0	**51.054.260**	**55.450.645**
6. Outflows from investment in long-term securities	3	0	4	1	50.603.633	54.924.710
7. Outflows from purchase of investments in subsidiaries and associates and joint ventures	3	0	4	2	-	-
8. Outflows from purchase of sale of intangible assets, property, plant and equipment	3	0	4	3	450.627	525.935
9. Outflows from purchase of investment property	3	0	4	4	-	-
10. Other outflows from investing activities	3	0	4	5	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3	0	4	6	**3.528.815**	**-**
IV. Net cash outflow from investing activities (3040 - 3034)	3	0	4	7	**-**	**17.129.011**
V. CASH FLOWS FROM FINANCING ACTIVITIES						
I. Cash inflows from financing activities (from 3049 to 3054)	3	0	4	8	**87.369.782**	**122.944.052**
1. Inflows from capital increase	3	0	4	9	-	-
2. Cash inflows from subordinated obligations	3	0	5	0	-	-
3. Cash inflows from loans received	3	0	5	1	87.369.782	122.944.052
4. Inflows from securities	3	0	5	2	-	-
5. Inflows from sale of own shares	3	0	5	3	-	-
6. Other inflows from financing activities	3	0	5	4	-	-
II. Cash outflows from financing activities (from 3056 to 3060)	3	0	5	5	**98.614.492**	**135.370.304**
7. Outflows from purchase of own shares	3	0	5	6	-	-
8. Cash outflows from subordinated obligations	3	0	5	7	5.923.635	-
9. Cash outflows from loans received	3	0	5	8	92.690.857	135.370.304
10. Cash outflows from securities	3	0	5	9	-	-
11. Other outflows from financing activities	3	0	6	0	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3	0	6	1	**-**	**-**
IV. Net cash outflow from financing activities (3055 - 3048)	3	0	6	2	**11.244.710**	**12.426.252**
Г. TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3	0	6	3	174.522.936	221.020.998
Д. TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3	0	6	4	182.407.655	222.512.099
Ђ. NET INCREASE IN CASH (3063 - 3064)	3	0	6	5	**-**	**-**
E. NET DECREASE IN CASH (3064 - 3063)	3	0	6	6	**7.884.719**	**1.491.101**
Ж. CASH AT THE BEGINNING OF THE YEAR	3	0	6	7	**34.945.610**	**36.227.664**
З. PROFIT ON EXCHANGE	3	0	6	8	-	209.047
И. LOSS ON EXCHANGE	3	0	6	9	745.993	-
J. CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3	0	7	0	**26.314.898**	**34.945.610**

In Belgrade,
on 15.03.2018.

Legal representative of the bank

____

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2017

Belgrade, March 2018

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna Bank a.d., Beograd (hereinafter the "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 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 principal holders of voting shares in the Bank are as follows:

Republic of Serbia	41.74%
EBRD, London	24.43%

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations in the country and abroad.

As of December 31, 2017, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 6 business centers, 5 business and corporate centers, 1 branch and 203 sub-branches in the territory of the Republic of Serbia (December 31, 2016: 23 branches and 208 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2017, the Bank had 2,806 employees (December 31, 2016: 2,858 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2017 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying 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 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 Bank adhered to the accounting policies described in Note 3.

The Bank's financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia.

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

2.2. Changes in accounting policy and disclosures

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 2017:

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

  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. The Amendments were not applicable for the Bank.

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

  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. The Amendments were not applicable for the Bank.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Bank's financial statements.

  - ***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.

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

2.3. Standards issued but not yet effective and not early adopted

- **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 fist-time adoption of standard and has disclosed it in the Notes to the Financial Statements.

- **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. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **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 requirements of this standard will have significant effect on 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 requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **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 requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (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 requirements of this standard will have significant effect on 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 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 requirements of this standard will have significant effect on 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.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.
- ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

IFRS 9 „Financial instruments“

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 project to implement IFRS 9 which is lead by the deputy Chief Executive Officer competent for risk. During the Project, the Bank has analysed effects of IFRS 9 on different processes, including accounting of financial instruments, risk evaluation, IT system, funds placement, development of new products and so on. Bank has engaged consultants to help IFRS 9 to be successfully implemented and the following phases have been conducted:

• Business model estimation;

• Classification and measurement;

• Impairment of financial assets and fair value calculation.

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.

According to IFRS 9, financial assets will be measured in one off the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.Ownership instruments, in non-dependent entities that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

Classification and measurement (continued)

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

• the goal of a business model of holding a financial asset is the collection of contracted cash flows and

• contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

• The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and

• contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

IFRS requires that all financial assets, other than derivatives and equity instruments, be analyzed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

Based on the conducted analysis, the Bank does not expect that the new classification requirements will materially impact the accounting recognition of receivables, loans, investments in debt securities and equity instruments. The results of the initial assessment indicated that:

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

2.3. Standards issued but not yet effective and not early adopted (continued)

Classification and measurement (continued)

• Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;

• Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;

• Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

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 through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies.
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 defined the criteria for classifying financial instruments into levels 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Segment 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Segment 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Segment 2

All financial instruments in which credit risk exacerbation is realized are classified in Segment 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument.

The Bank is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

Classification and measurement (continued)

Segment 3

As in accordance with IAS 39, financial instruments are included in Segment 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

Based on the analysis carried out by the date of these financial statements, the total estimated effect of the first application of IFRS 9 amounts to RSD 1.16 billion, of which RSD 0.2 billion relates to impairment of exposure to the Republic of Serbia and the National Bank of Serbia, mostly on the basis of a portfolio of securities of the value classified as available for sale in accordance with IAS 39. Aforementioned effects are preliminary, due to the fact that the Bank is still in the process of finalizing standard implementation. The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings account. The Bank will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Bank will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

2.4. Going Concern

The financial statements were prepared on a going concern assumption entailing the Bank’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 applied consistently to all periods presented in these financial statements.

(a) Consolidation

The Bank has control over the following legal entities, which are not 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 Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's separate financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into RSD at the spot middle exchange rates 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 statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

	2017	2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473
JPY	0.8791	1.0044

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, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income from non-performing loans is recognized at the net principle, reducing the gross interest accrued by the impairment allowance amount, i.e. the amount that is likely not to be collected.

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 Bank's 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.

g) Dividends

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 write-off, based on the laws that have been enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected amount of deferred tax liabilities or assets.

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, the Bank pays 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 Bank initially recognizes loans and receivables, deposits, borrowings and subordinated liabilities on the date which they are transferred to the borrower or received. All other financial assets and liabilities are initially recognized on the date at which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

The Bank classified its 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 Bank classifies its financial liabilities as measured at amortized cost or held for trading – please refer to accounting policies.

(iii) De-recognition

The Bank derecognizes 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 Bank 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 de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On de-recognition 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.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, 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 the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank 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.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize 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 Bank’s trading activity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Bank measures 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 Bank establishes 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 the Bank, 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 Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vii) Identification and Measurement of Impairment

At reporting date the Bank assesses 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 the Bank on terms that the 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.

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

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

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

The Bank write-off certain loans and receivables and investment securities when they are determined to be uncollectible (refer to note 4.1.1).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Cash and Cash Equivalents

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

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 Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, 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 are 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 include 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 statement of comprehensive income, 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 Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Approved RSD loans which are hedged using a contractual currency clause linked to the RSD to EUR exchange rate, to another foreign currency or consumer price index are converted into RSD 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 write-offs is recognized in the statement of comprehensive income in impairment charge for credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investment Securities

Investment securities are initially measured at fair value plus, in case of investment securities other than fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or 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 Bank has 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 the Bank 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 the Bank has collected substantially all of the asset's original principal, and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Bank'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 the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank 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.

Unquoted equity securities whose fair value cannot be reliably measured are carried 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 the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investment Securities (continued)

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

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired (long and continuing decline in the fair value in the period longer than twelve months, as well as decline above 30% of cost), as well as the cumulative loss that had been recognized in other comprehensive income 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 the Bank 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 measured at cost.

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 the Bank 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	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Leasehold improvements	1 – 23.5	4.25%-86.20%

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 by the Bank 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 10 years and amortization rates used range between 10.00% and 33.34%.

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

(q) Investment Property

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Investment Property (continued)

For subsequent measurement of investment property the Bank uses 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) Leases

The Bank is a lessee based on leasing agreements. The Bank classifies 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 Bank’s 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 Bank’s 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.

(s) Impairment of Non-Financial Assets

The carrying amounts of the Bank’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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Deposits, Borrowings and Subordinated Liabilities

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

The Bank classifies 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.

(u) Provisions

A provision is recognized if, as a result of a past event, the Bank 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.

(v) Employment Benefits

In accordance with regulatory requirements, the Bank is 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 Bank is 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 Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2017 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 35(b).

(w) 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.

(x) Capital and Reserves

The Bank's equity consists of founders' capital, shares of subsequent issues, share premium, profit reserves, revaluation reserves and unrealized losses on available for sale securities, retained earnings and current period result.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Capital and Reserves (continued)

The Bank's equity is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(y) Earnings per Share

The 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 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 preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

(z) Segment Reporting

An operating segment is a component of the Bank 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 Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank 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.

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.

4. RISK MANAGEMENT

The Bank 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 Bank 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 Bank's aptitude to assume risk in accordance with the adopted strategies and policies.
The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the year 2017 (grouping of branches into Business centers, changes in the function of economy and population, changes in decision making), as well as changes of internal acts which regulates risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of problematic receivables and exposures to one person or a group of related parties has improved.

Starting from 30.06.2017. The Bank applies the Basel III standard and has taken all necessary measures to timely harmonize its business with the new regulations. Through a clearly defined process of introducing new and significantly altered products, services and processes related to processes and systems, the Bank analyzes their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially adverse effects on the financial result Banks.

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 Bank's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

4. RISK MANAGEMENT (CONTINUED)

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

4. RISK MANAGEMENT (CONTINUED)

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.

The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

In 2017, the Bank calculated the allowance for impairment in accordance with the IAS 39 and IAS 37 standards, which are applicable as of 31 December 2017. y At the beginning of 2018, the Bank performed the harmonization of internal acts (methodologies and procedures) in accordance with the amendments to the regulations of the National Bank of Serbia in the field of accounting and financial reporting, introducing the obligation to apply the International Financial Reporting Standard 9 in banks (IFRS 9). The aforementioned amendments prescribe the obligation of banks to, from 1 January 2018 and going forward, the impairment calculation is carried out in accordance with IFRS 9. In accordance with IFRS 9, the Bank has adopted a new Methodology for assessing impairment of balance sheet assets and probable loss on off-balance sheet items, which will apply from 1 January 2018.

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Department) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

4. RISK MANAGEMENT (CONTINUED)

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

Types of Risk

In its regular course of business, the Bank 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 Bank’s regular operations.

4. RISK MANAGEMENT (CONTINUED)

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 Bank has 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, the Bank 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 Bank's competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Considering the importance of credit risk, dispersion has been made at decision levels when placing funds of the Bank. This dispersion is provided by determining the limits to which individual persons or authorities may decide. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors

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.

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

Credit Risk Management

According to the volume, type and complexity of its operations, the Bank 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 Bank 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 Bank has 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 Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.

4. RISK MANAGEMENT (CONTINUED)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

The basic principles of credit risk management are as follows:

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

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Bank performs 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. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. Application of these principles allows the Bank to cover unexpected losses due to the customer's inability to settle liabilities as they fall due, in accordance with contractually defined terms. For these purposes, the Bank classifies receivables and assesses the level of necessary reserve using the regular analysis of portfolio. The analysis includes the measurement of adequacy of reserves formed against individual borrowers, risk categories, portion of portfolio and at overall portfolio level.

In December 2017, in accordance with the amendments to the regulations of the National Bank of Serbia, the Bank has harmonized the method of classification of clients to which the loan is granted or approves the loan for closing or closing of the risky placement directly or indirectly, as well as the manner of calculating the required reserves.

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

Basic credit risk alleviating techniques are:

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

4. RISK MANAGEMENT (CONTINUED)

Credit Risk Management (continued)

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

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

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

Monitoring investment 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.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, 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 Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating 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 Bank initiates reversal of the remaining receivables, or transfer from the balance sheet to off balance sheet.

In accordance with the regulations of the National Bank of Serbia (Decision on accounting reverse of the balance sheet assets of the bank), as well as amendments to the legislation related to tax treatment, in 2017, the Bank made a reverse of all impaired receivables by transfer from balance sheet to off-balance sheet records. The result was a reduction in gross loans and value adjustments in the balance sheet, and consequently a decrease in NPL indicators.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank 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.

4. RISK MANAGEMENT (CONTINUED)

Credit Risk Management (continued)

Identification of problematic and restructured claims

The Bank monitors 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.

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 claims that are late in settling liabilities over 90 days, under any material obligation to the Bank (parent company) or subordinated companies, receivables where, on the basis of the financial situation, it is estimated that the borrower will not be able to settle its obligations in completely without taking into account the possibility of implementing credit protection instruments (regardless of whether they are late in settling liabilities), claims for which the amount of the impairment is determined on an individual basis, as well as potential liabilities based on the issued guarantees (if it is probable that they will be activated) and the irrevocable liabilities assumed (if their withdrawal would lead to the creation of claims that the Bank considers would not be collected completely without the realization of security means). Problems are also considered as claims based on: termination of recording of interest income, commissions and fees in the income statement specific adjustments for credit risk, which are calculated due to significant deterioration in credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, the restructuring of receivables due to the financial difficulties of the debtor, and the submission of a motion to initiate bankruptcy proceedings against the debtor. Problematic claims include all receivables from the debtor, if one claim is classified as a 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 (interest rate reduction, 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,

4. RISK MANAGEMENT (CONTINUED)

Credit Risk Management (continued)

Identification of problematic and restructured claims (continued)

- The Bank 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 Bank (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 Bank regularly monitors the measures taken to restructure the risky placements and controls 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.

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 greater 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 Bank'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 Bank 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 and is acceptable for the Bank (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 history (risk rating categories 4 and 5). In 2017, the Bank improved its internal rating system by dividing risk category 4 into three sub-categories: 4 - non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

4. RISK MANAGEMENT (CONTINUED)

Downgrade Risk (continued)

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

Risk of Change in Value of Assets

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

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

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

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

The Bank assesses allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

The Bank assesses impairment of each individually significant loan with default status (risky placement, risk subcategory 4D, 4DD and 5 according to internal rating system) 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. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Bank determines 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:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when, due to the financial difficulties of the debtor, the Bank significantly changes the conditions for repayment of claims in relation to those initially contracted;

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Individual Assessment (continued)

- The debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation or some other type of financial reorganization of the borrower) etc.

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 Bank has.

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the assessment of the expected inflow from placement, which are primarily related to the documentation on planned future cash flows of the debtor.

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 Assessment

Impairment is assessed on a group basis for loans with no objective evidence of impairment identified and which are not individually significant with the status default and for loans where the amount of value adjustments on the individual basis has not been determined, as well as on commissions and other receivables that do not have elements to reduce to 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.

Calculation of group impairment percentages is based on the probability of the occurrence of non-settlement status of the debtor's (PD) obligations arising from the migration of risk categories into the status of non-settlement of liabilities by type of client or product.

Appreciating the specifics in dealing with clients, migrations for legal entities, households by types of products, banks and entrepreneurs are especially determined.

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

Assessment of Provisions for 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 Bank also performs determination of probable loss for unused commitments, for which it has not contracted unconditionally and without notice, the possibility of cancellation of contractual obligations. When calculating provisions for unused commitments, the Bank uses the conversion factor (CCF), by which the book value of unused commitments is adjusted.

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Assessment of Provisions for Losses on Off-Balance Sheet Items (continued)

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 the Bank uses, 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.

As a standard collaterals Bank accepts 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 Bank provides 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 Bank, and the insurance policies must be endorsed in favor of the Bank.

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 Bank protects 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 Bank pays 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.

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Means of protection against credit risk (collaterals) (continued)

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 Bank's portfolio with movements in the market value in the Republic of Serbia 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 Bank conducts 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 its value, the Bank monitors and updates 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.

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2017 and 2016 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).

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Maximum Credit Risk Exposure (continued)

(000) RSD

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
I. Assets	**399,678,901**	**369,183,538**	**442,110,850**	**400,017,469**
Cash and cash funds held with the central bank	49,840,887	49,840,887	55,153,209	55,153,209
Loans and receivables due from banks and other financial institutions	29,746,347	29,543,789	40,911,287	40,601,413
Loans and receivables due from customers	171,931,966	153,897,367	180,056,414	150,411,409
Financial assets	117,288,770	117,288,767	136,532,653	136,366,773
Other assets	9,347,623	6,798,506	8,901,845	6,252,855
Non-montary assets	21,523,308	11,814,222	20,555,442	11,231,810
II. Off-Balance Sheet Items	**34,284,701**	**34,160,309**	**31,819,175**	**31,388,234**
Payment guarantees	3,443,746	3,416,712	3,635,706	3,572,933
Performance bonds	4,349,152	4,320,139	6,728,901	6,695,266
Irrevocable commitments	26,194,257	26,149,893	20,862,103	20,811,873
Other items	297,546	273,565	592,465	308,162
Total (I+II)	**433,963,602**	**403,343,847**	**473,930,025**	**431,405,703**

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

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

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

(000) RSD

31.12.2017	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	35,946,088	1,532,193	37,478,281	94,115	520,302	614,417	36,863,864
Cash Loans	24,286,208	302,978	24,589,186	200,232	229,834	430,066	24,159,120
Agricultural Loans	7,153,549	205,883	7,359,432	61,549	100,090	161,639	7,197,793
Oher Loans	5,353,083	383,880	5,736,963	76,780	372,548	449,328	5,287,635
Micro business	7,704,698	697,867	8,402,565	100,490	289,855	390,345	8,012,220
Total Retail	**80,443,626**	**3,122,801**	**83,566,427**	**533,166**	**1,512,629**	**2,045,795**	**81,520,632**
Large corporate clients	35,400,783	16,940,157	52,340,940	260,084	11,881,024	12,141,108	40,199,832
Middle corporate clients	9,776,084	2,037,738	11,813,822	54,739	1,349,336	1,404,075	10,409,747
Small corporate clients	3,979,898	1,378,923	5,358,821	64,820	685,329	750,149	4,608,672
State owned clients	9,612,889	997,190	10,610,079	89,830	166,416	256,246	10,353,833
Other	6,804,318	1,437,559	8,241,877	78	1,437,148	1,437,226	6,804,651
Total Corporate	**65,573,972**	**22,791,567**	**88,365,539**	**469,551**	**15,519,253**	**15,988,804**	**72,376,735**
Total	**146,017,598**	**25,914,368**	**171,931,966**	**1,002,717**	**17,031,882**	**18,034,599**	**153,897,367**
Due from Banks	**29,543,789**	**202,558**	**29,746,347**	**-**	**202,558**	**202,558**	**29,543,789**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

(000) RSD

31.12.2016	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	37,271,767	1,992,031	39,263,798	87,198	938,529	1,025,727	38,238,071
Cash Loans	18,968,032	924,303	19,892,334	135,493	846,686	982,179	18,910,155
Agricultural Loans	6,081,950	467,403	6,549,353	48,880	383,758	432,638	6,116,715
Oher Loans	5,239,787	662,682	5,902,469	72,520	650,164	722,684	5,179,785
Micro business	6,576,089	1,121,115	7,697,204	91,716	692,740	784,456	6,912,748
Total Retail	**74,137,624**	**5,167,534**	**79,305,158**	**435,807**	**3,511,876**	**3,947,683**	**75,357,475**
Large corporate clients	32,748,652	24,027,084	56,775,736	319,008	19,521,746	19,840,754	36,934,982
Middle corporate clients	16,393,603	3,048,236	19,441,839	191,212	2,173,057	2,364,269	17,077,570
Small corporate clients	6,652,793	1,865,471	8,518,264	108,851	1,130,266	1,239,117	7,279,147
State owned clients	8,447,554	1,914,002	10,361,556	64,686	562,870	627,556	9,734,000
Other	4,028,278	1,625,583	5,653,861	42	1,625,583	1,625,625	4,028,236
Total Corporate	**68,270,880**	**32,480,376**	**100,751,256**	**683,800**	**25,013,522**	**25,697,322**	**75,053,934**
Total	**142,408,504**	**37,647,910**	**180,056,414**	**1,119,607**	**28,525,398**	**29,645,005**	**150,411,409**
Due from Banks	**40,601,413**	**309,874**	**40,911,287**	**-**	**309,874**	**309,874**	**40,601,413**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment in Balance sheet

(000) RSD

	31.12.2016	Increase in impairment	Decrease in impairment	Other changes*	31.12.2017
Retail	3,947,684	1,865,210	(1,608,988)	(2,158,111)	2,045,795
Corporate	25,697,321	8,727,407	(8,514,240)	(9,921,683)	15,988,805
Total	**29,645,005**	**10,592,617**	**(10,123,228)**	**(12,079,795)**	**18,034,599**
Due from Banks	**309,874**	**-**	**(60,561)**	**(46,755)**	**202,558**

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

Impaired Loans and Receivables

Impaired loans and receivables are those for which the Bank has 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 (impaired receivables). Estimates of impairment are made for each individually significant placement with the status of non-settlement of defaults (default risk sub-category 4D and 4DD according to the internal rating system and risk categories 5), if there is objective evidence of impairment as a result of one or more events occurring after initial recognition financial assets and if there is a measurable decrease in future cash flows.

Significant decrease in value adjustments in the balance sheet in 2017 resulted from the transfer of 100% of impaired placements to off-balance sheet records, as well as significantly higher collection of risk placements than planned.

Receivables Matured but not Impaired

For receivables matured but not impaired (rating categories 1, 2, 3 and subcategory 4), impairment is assessed by group (uncollected receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

Assessment of group impairment is based on the probability of the occurrence of the status of non-settlement of the debtor's obligations (PD) calculated on the basis of migration into the status of default, by type of client or product. Appreciating the specifics in dealing with clients, migrations for legal entities, households by types of products, banks and entrepreneurs are especially determined.

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans not impaired, by days past due

(000) RSD

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	35,370,869	292,352	83,716	199,151	-	**35,946,088**
Cash Loans	22,652,874	1,470,506	109,774	53,054	-	**24,286,208**
Agricultural Loans	6,887,620	175,355	69,829	20,745	-	**7,153,549**
Other Loans	5,030,740	288,625	24,275	9,444	-	**5,353,083**
Micro Business	6,645,290	1,024,721	31,242	3,446	-	**7,704,698**
Total Retail	**76,587,393**	**3,251,558**	**318,835**	**285,839**	**-**	**80,443,626**
Large corporate clients	35,065,168	148,661	186,954	-	-	**35,400,783**
Middle corporate clients	8,859,787	831,450	84,847	-	-	**9,776,084**
Small corporate clients	3,701,976	268,408	9,514	-	-	**3,979,898**
State owned clients	9,494,453	118,436	-	-	-	**9,612,889**
Other	6,804,266	52	-	-	-	**6,804,318**
Total Corporate	**63,925,650**	**1,367,008**	**281,315**	-	**-**	**65,573,972**
Total	**140,513,043**	**4,618,566**	**600,150**	**285,840**	**-**	**146,017,598**
Out of which: restructured	614,572	165,746	-	-	-	780,319
Due from Banks	**25,520,572**	**4,023,218**	**-**	**-**	**-**	**29,543,789**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans not impaired, by days past due

(000) RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90	Over 90 days	Total
Housing Loans	36,498,786	413,924	116,420	242,637	-	**37,271,767**
Cash Loans	17,653,066	1,161,811	109,521	43,633	-	**18,968,032**
Agricultural Loans	5,835,530	184,662	45,886	15,871	-	**6,081,950**
Other	4,917,052	286,982	23,188	12,566	-	**5,239,787**
Micro Busines	5,699,965	865,677	9,373	1,073	-	**6,576,089**
Total Retail	**70,604,398**	**2,913,056**	**304,389**	**315,781**	**-**	**74,137,624**
Large corporate clients	32,639,078	109,574	-	-	-	**32,748,652**
Middle corporate clients	14,925,524	1,468,079	-	-	-	**16,393,603**
Small corporate clients	5,919,535	725,740	7,518	-	-	**6,652,793**
State owned clients	8,261,953	185,600	-	-	-	**8,447,554**
Other	4,027,039	1,239	-	-	-	**4,028,278**
Total Corporate	**65,773,131**	**2,490,231**	**7,518**	**-**	**-**	**68,270,880**
Total	**136,377,529**	**5,403,288**	**311,907**	**315,781**	**-**	**142,408,504**
Out of which: restructured	2,014,929	176,746	10,745	9,734	-	2,212,153
Due from Banks	**40,601,413**	**-**	**-**	**-**	**-**	**40,601,413**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans impaired, by days past due

(000) RSD

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	176,439	51,838	16,277	26,621	1,261,018	**1,532,194**
Cash Loans	40,921	14,348	8,515	13,420	225,774	**302,978**
Agricultural Loans	19,594	5,777	9,331	8,430	162,751	**205,882**
Other	10,392	460	475	218	372,334	**383,880**
Micro Busines	69,521	15,136	937	1,629	610,643	**697,866**
Total Retail	**316,867**	**87,560**	**35,536**	**50,317**	**2,632,521**	3,122,801
Large corporate clients	2,262,581	-	-	-	14,677,576	**16,940,157**
Middle corporate clients	93,355	20,675	-	58,566	1,865,142	**2,037,738**
Small corporate clients	87,971	373,012	36,677	2,832	878,430	**1,378,923**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,737	-	-	-	822	**1,437,559**
Total Corporate	**4,621,696**	**416,709**	**36,677**	**61,398**	**17,655,086**	**22,791,567**
Total	**4,938,564**	**504,269**	**72,213**	**111,715**	**20,287,607**	**25,914,368**
Out of which: restructured	2,541,031	61,564	54,121	73,779	15,991,941	18,722,435
Due from Banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans impaired, by days past due

(000) RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	170,754	45,426	27,781	50,836	1,697,234	**1,992,031**
Cash Loans	38,302	16,201	9,168	14,898	845,734	**924,303**
Agricultural Loans	9,748	3,642	3,293	2,457	448,263	**467,403**
Other	11,630	563	155	638	649,696	**662,682**
Micro Busines	16,405	5,158	19,453	14,500	1,065,599	**1,121,115**
Total Retail	**246,839**	**70,990**	**59,850**	**83,329**	**4,706,526**	**5,167,534**
Large corporate clients	2,521,936	3,466,420	49,512	-	17,989,216	**24,027,084**
Middle corporate clients	290,537	66,476	-	13,254	2,677,968	**3,048,236**
Small corporate clients	469,264	14,998	-	26,523	1,354,687	**1,865,471**
State owned clients	1,267,471	48,709	-	-	597,822	**1,914,002**
Other	1,536,781	-	-	-	88,801	**1,625,583**
Total Corporate	**6,085,990**	**3,596,603**	**49,512**	**39,777**	**22,708,494**	**32,480,376**
Total	**6,332,829**	**3,667,593**	**109,362**	**123,106**	**27,415,020**	**37,647,910**
Out of which: restructured	2,841,737	3,579,359	60,187	7,057	20,125,424	26,613,763
Due from Banks	**309,874**	**-**	**-**	**-**	**-**	**309,874**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.2 Non-Performing Receivables

(000) RSD

31.12.2017	Gross Exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**83,566,427**	**2,045,795**	**3,122,801**	**859,561**	**1,512,629**	**3,74%**	**2,648,094**
Housing Loans	37,478,281	614,417	1,532,194	430,253	520,302	4,09%	1,511,866
Cash Loans	24,589,186	430,066	302,978	27,510	229,833	1,23%	232,677
Agricultural Loans	7,359,432	161,639	205,882	19,626	100,090	2,80%	196,094
Oher Loans	5,736,963	449,327	383,880	-	372,548	6,69%	10,416
Micro business	8,402,565	390,345	697,866	382,172	289,855	8,31%	697,041
Total Retail	**88,365,539**	**15,988,804**	**22,791,567**	**17,862,874**	**15,519,253**	**25,79%**	**21,102,348**
Agricultural Loans	6,066,845	161,354	253,050	28,243	113,994	4,17%	252,908
Manufacturing Industry	22,380,808	5,941,568	9,145,453	8,191,755	5,721,734	40,86%	6,591,232
Electricity	149,035	28,187	67,005	-	174	44,96%	67,005
Construction Loans	5,681,922	891,110	934,013	810,916	885,538	16,44%	1,148,489
Wholesale and Retal	22,011,868	1,845,546	3,652,235	2,846,093	1,756,203	16,59%	3,804,104
Services Loans	13,182,040	1,163,568	1,438,755	1,411,506	1,089,579	10,91%	1,465,235
Real Estate Loans	1,512,515	692,376	1,345,149	960,907	691,123	88,93%	1,370,156
Other	17,380,506	5,265,097	5,955,907	3,613,454	5,260,908	34,27%	6,403,219
	171,931,966	**18,034,599**	**25,914,368**	**18,722,435**	**17,031,882**	**15,07%**	**23,750,442**
	29,746,347	**202,558**	**202,558**	**-**	**202,558**	**0,68%**	**-**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.2 Non-Performing Receivables

(000) RSD

31.12.2016	Gross Exposure	Gross Value Adjustment	Loans matured and not impaired	Restructured Loans matured and not impaired	Impairment	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**79,305,158**	**3,947,683**	**5,167,534**	**977,774**	**3,511,876**	**6,52%**	**3,720,594**
Housing Loans	39,263,798	1,025,727	1,992,031	443,673	938,529	5,07%	1,804,040
Cash Loans	19,892,334	982,179	924,303	38,240	846,686	4,65%	439,469
Agricultural Loans	6,549,353	432,638	467,403	39,016	383,758	7,14%	388,345
Oher Loans	5,902,469	722,684	662,682	130	650,164	11,23%	27,496
Micro business	7,697,204	784,457	1,121,115	456,716	692,740	14,57%	1,061,244
Total Retail	**100,751,256**	**25,697,322**	**32,480,376**	**25,635,989**	**25,013,522**	**32,24%**	**30,445,066**
Agricultural Loans	6,762,592	286,096	345,824	41,950	223,879	5,11%	370,591
Manufacturing Industry	34,794,713	10,138,902	14,174,435	12,737,641	9,907,593	40,74%	10,594,219
Electricity	83,227	41,674	0	0	0	0,00%	0
Construction Loans	3,137,703	1,393,284	1,351,493	1,122,734	1,276,404	43,07%	1,582,156
Wholesale and Retal	28,424,037	4,290,343	5,149,413	3,981,786	4,153,320	18,12%	5,442,964
Services Loans	10,983,232	2,502,551	2,884,345	2,876,445	2,435,674	26,26%	2,921,787
Real Estate Loans	1,716,719	688,574	1,409,119	954,401	683,881	82,08%	1,454,889
Other	14,849,032	6,355,898	7,165,746	3,921,032	6,332,770	48,26%	8,078,459
	180,056,414	**29,645,005**	**37,647,910**	**26,613,763**	**28,525,398**	**20,91%**	**34,165,660**
	40,911,287	**309,874**	**309,874**	**-**	**309,874**	**0,76%**	**-**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.2 Non-Performing Receivables

Changes in provision for impairment

(000) RSD

	Gross 31.12.2016	Impaired during the year	Cease being impaired during the year	Foreign exchange rate	Other Changes*	Gross 31.12.2017	Net 31.12.2017
Housing Loans	1,992,031	341,812	(645,559)	(119,279)	(36,811)	1,532,194	1,011,892
Cash Loans	924,303	180,737	(790,385)	(2,436)	(9,240)	302,978	73,145
Agricultural Loans	467,403	122,872	(372,726)	(7,568)	(4,099)	205,882	105,792
Other	662,682	95,279	(372,518)	(319)	(1,243)	383,880	11,332
Micro Busines	1,121,115	87,406	(481,463)	(36,514)	7,322	697,866	408,011
Total Retail	**5,167,534**	**828,105**	**(2,662,652)**	**(166,116)**	**(44,070)**	**3,122,801**	**1,610,172**
Large corporate clients	24,027,084	1,467,414	(8,137,397)	(811,340)	394,396	16,940,157	5,059,133
Middle corporate clients	3,048,236	37,985	(1,061,064)	(85,188)	97,769	2,037,738	688,402
Small corporate clients	1,865,471	183,291	(575,711)	(51,880)	(42,248)	1,378,923	693,593
State owned clients	1,914,002	68,060	(525,411)	(64,543)	(394,919)	997,190	830,774
Other	1,625,583	412	(88,390)	(51,932)	(48,112)	1,437,559	412
Total Corporate	**32,480,376**	**1,757,162**	**(10,387,972)**	**(1,064,883)**	**6,885**	**22,791,567**	**7,272,313**
Total	**37,647,910**	**2,585,267**	**(13,050,624)**	**(1,231,000)**	**(37,185)**	**25,914,368**	**8,882,485**
Due from Banks	**309,874**	**-**	**-**	**-**	**(107,316)**	**202,558**	**-**

**Other changes relate to orderly settlement of debt during 2017 which caused decrease in credit exposure.*

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.3 Performing Receivables

(000) RSD

	31.12.2017					31.12.2016				
	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	35,707,544	228,663	9,881	35,946,088	35,671,079	36,697,560	568,687	5,520	37,271,767	36,947,007
Cash Loans	24,222,726	62,847	635	24,286,208	11,521,899	18,905,256	61,140	1,635	18,968,032	15,533,373
Agricultural Loans	7,125,547	27,708	294	7,153,549	6,059,245	6,054,901	24,463	2,586	6,081,950	5,777,082
Other	5,331,736	18,050	3,297	5,353,083	96,689	5,194,917	40,824	4,046	5,239,787	108,277
Micro Busines	7,286,079	356,729	61,890	7,704,698	7,704,263	6,095,662	288,095	192,331	6,576,089	6,574,964
Total Retail	**79,673,633**	**693,996**	**75,997**	**80,443,626**	**61,053,174**	**72,948,296**	**983,209**	**206,119**	**74,137,624**	**64,940,703**
Large corporate clients	34,569,288	831,495	-	35,400,783	34,954,220	28,720,712	4,027,940	-	32,748,652	31,946,195
Middle corporate clients	9,584,446	190,160	1,478	9,776,084	9,647,024	16,034,901	358,702	-	16,393,603	16,279,237
Small corporate clients	3,844,531	135,365	2	3,979,898	3,955,505	6,190,681	431,993	30,119	6,652,793	6,619,405
State owned clients	7,794,070	1,768,042	50,777	9,612,889	6,158,448	6,638,454	500,825	1,308,275	8,447,554	5,311,410
Other	3,052,381	3,751,885	52	6,804,318	3,752,134	216	4,027,641	421	4,028,278	4,029,428
Total Corporate	**58,844,716**	**6,676,947**	**52,309**	**65,573,972**	**58,467,332**	**57,584,964**	**9,347,101**	**1,338,815**	**68,270,880**	**64,185,675**
Total	**138,518,348**	**7,370,943**	**128,307**	**146,017,598**	**119,520,506**	**130,533,261**	**10,330,310**	**1,544,934**	**142,408,504**	**129,126,378**
Due from Banks	**29,543,789**	**-**	**-**	**29,543,789**	**-**	**40,601,413**	**-**	**-**	**40,601,413**	**-**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables

(000) RSD

31.12.2017	Gross exposure	Impairment of gross exposure	Restructured receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for restructured receivables
Retail	**83,566,427**	**2,045,795**	**1,093,014**	**859,561**	**310,969**	**1,31%**	**1,089,912**
Housing Loans	37,478,281	614,417	655,486	430,253	164,162	1,75%	654,999
Cash Loans	24,589,186	430,066	35,466	27,510	13,135	0,14%	33,730
Agricultural Loans	7,359,432	161,639	19,626	19,626	5,399	0,27%	18,746
Oher Loans	5,736,963	449,327	-	-	-	0,00%	-
Micro business	8,402,565	390,345	382,436	382,172	128,273	4,55%	382,436
Total Retail	**88,365,539**	**15,988,804**	**18,409,740**	**17,862,874**	**12,699,795**	**20,83%**	**18,381,116**
Agricultural Loans	6,066,845	161,354	28,243	28,243	16,593	0,47%	28,243
Manufacturing Industry	22,380,808	5,941,568	8,598,619	8,191,755	5,660,335	38,42%	8,591,732
Electricity	149,035	28,187	-	-	-	0,00%	-
Construction Loans	5,681,922	891,110	831,141	810,916	788,286	14,63%	831,141
Wholesale and Retal	22,011,868	1,845,546	2,946,223	2,846,093	1,224,670	13,38%	2,924,486
Services Loans	13,182,040	1,163,568	1,431,154	1,411,506	1,089,580	10,86%	1,431,154
Real Estate Loans	1,512,515	692,376	960,907	960,907	673,604	63,53%	960,907
Other	17,380,506	5,265,097	3,613,454	3,613,454	3,246,727	20,79%	3,613,454
	171,931,966	**18,034,599**	**19,502,754**	**18,722,435**	**13,010,764**	**11,34%**	**19,471,028**
	29,746,347	**202,558**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables (continued)

(000) RSD

31.12.2016	Gross exposure	Impairment of Gross exposure	Restructured receivables	Non-performing restructured receivables	Impairment of restructured receivables	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**79,305,158**	**3,947,683**	**1,287,125**	**977,774**	**407,116**	**1,62%**	**1,277,770**
Housing Loans	39,263,798	1,025,727	738,398	443,673	193,064	1,88%	737,546
Cash Loans	19,892,334	982,179	47,301	38,240	23,734	0,24%	39,888
Agricultural Loans	6,549,353	432,638	39,016	39,016	22,796	0,60%	37,941
Oher Loans	5,902,469	722,684	130	130	130	0,00%	130
Micro business	7,697,204	784,457	462,279	456,716	167,392	6,01%	462,264
Total Retail	**100,751,256**	**25,697,322**	**27,538,792**	**25,635,989**	**20,608,449**	**27,33%**	**27,513,470**
Agricultural Loans	6,762,592	286,096	41,950	41,950	553	0,62%	41,950
Manufacturing Industry	34,794,713	10,138,902	12,891,752	12,737,641	9,552,935	37,05%	12,891,292
Electricity	83,227	41,674	-	-	-	0,00%	-
Construction Loans	3,137,703	1,393,284	1,122,734	1,122,734	1,072,398	35,78%	1,122,734
Wholesale and Retal	28,424,037	4,290,343	5,629,395	3,981,786	3,286,892	19,81%	5,629,395
Services Loans	10,983,232	2,502,551	2,977,528	2,876,445	2,427,775	27,11%	2,954,114
Real Estate Loans	1,716,719	688,574	954,401	954,401	644,009	55,59%	954,401
Other	14,849,032	6,355,898	3,921,032	3,921,032	3,623,888	26,41%	3,919,585
	180,056,414	**29,645,005**	**28,825,916**	**26,613,763**	**21,015,565**	**16,01%**	**28,791,240**
	40,911,287	**309,874**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables (continued)

Change in restructured receivables

(000) RSD

	Gross 31.12.2016	New Restructured Receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other Changes	Gross 31.12.2017	Net 31.12.2017
Housing Loans	738,398	51,906	(31,496)	(64,500)	(38,823)	655,486	491,323
Cash Loans	47,301	9,218	(16,189)	(828)	(4,037)	35,466	22,331
Agricultural Loans	39,016	7,677	(25,431)	(1,185)	(450)	19,626	14,227
Other	130	-	(130)	-	-	-	-
Micro Busines	462,279	3,745	(76,674)	(17,518)	10,604	382,436	254,163
Total Retail	**1,287,125**	**72,546**	**(149,920)**	**(84,031)**	**(32,706)**	**1,093,014**	**782,045**
Large corporate clients	24,840,314	434,048	(8,040,092)	(818,068)	241,630	16,657,832	5,080,518
Middle corporate clients	1,692,358	93,170	(534,561)	(56,549)	70,342	1,264,760	438,251
Small corporate clients	523,718	56,738	(45,962)	(20,505)	(27,897)	486,093	190,125
State owned clients	482,401	1,055	(482,401)	(19,533)	19,533	1,055	1,051
Other	-	-	-	-	-	-	-
Total Corporate	**27,538,792**	**585,011**	**(9,103,016)**	**(914,656)**	**303,609**	**18,409,740**	**5,709,945**
Total	**28,825,916**	**657,558**	**(9,252,937)**	**(998,686)**	**270,903**	**19,502,754**	**6,491,990**
Due from Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables (continued)

Measures implemented by the Bank during the restructuring of loans

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

The measures most often taken by the Bank 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 Bank's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the Bank has not implemented a partial write-offs during the restructuring, but in the coming period, the Bank 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 analyzed comparatively, and collateral position of the Bank 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)

Risk of Change in Value of Assets (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

(000) RSD

31.12.2017	Performing Receivables					Non-Performing Receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**80,443,626**	**-**	**-**	**-**	**-**	**3,122,801**	**-**	**-**	**-**	**-**
Housing Loans	35,946,088	-	-	-	-	1,532,194	-	-	-	-
Cash Loans	24,286,208	-	-	-	-	302,978	-	-	-	-
Agricultural Loans	7,153,549	-	-	-	-	205,882	-	-	-	-
Other	5,353,083	-	-	-	-	383,880	-	-	-	-
Micro Businesses	7,704,698	-	-	-	-	697,866	-	-	-	-
Corporate Clients	**58,769,024**	**3,751,885**	**3,053,064**	**-**	**-**	**22,791,567**	**-**	**-**	**-**	**-**
Agriculture	5,813,795	-	-	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	-	-	-	-	9,145,453	-	-	-	-
Electric Energy	82,030	-	-	-	-	67,005	-	-	-	-
Construction	4,747,909	-	-	-	-	934,013	-	-	-	-
Wholesale and Retail	18,359,633	-	-	-	-	3,652,235	-	-	-	-
Service Activities	11,743,285	-	-	-	-	1,438,755	-	-	-	-
Real Estate Activities	167,366	-	-	-	-	1,345,149	-	-	-	-
Other	4,619,651	3,751,885	3,053,064	-	-	5,955,907	-	-	-	-
Total	**139,212,649**	**3,751,885**	**3,053,064**	**-**	**-**	**25,914,368**	**-**	**-**	**-**	**-**
Due from banks	**7,883,218**	**8,655**	**494,798**	**4,649,755**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

Depending on general economic trends and developments in individual industrial sectors, the Bank diversifies its investments in industrial sectors that are resistant to the impact of adverse economic developments.

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.5. Concentration Risk (continued)

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

(000) RSD

31.12.2016	Performing Receivables					Non-Performing Receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**74,137,624**	**-**	**-**	**-**	**-**	**5,167,534**	**-**	**-**	**-**	**-**
Housing Loans	37,271,766	-	-	-	-	1,992,031	-	-	-	-
Cash Loans	18,968,032	-	-	-	-	924,303	-	-	-	-
Agricultural Loans	6,081,950	-	-	-	-	467,403	-	-	-	-
Other	5,239,787	-	-	-	-	662,682	-	-	-	-
Micro Businesses	6,576,089	-	-	-	-	1,121,115	-	-	-	-
Corporate Clients	**64,243,239**	**4,027,641**	**-**	**-**	**-**	**32,412,891**	**-**	**-**	**-**	**67,485**
Agriculture	6,416,768	-	-	-	-	345,825	-	-	-	-
Manufacturing Industry	20,620,278	-	-	-	-	14,174,435	-	-	-	-
Electric Energy	83,227	-	-	-	-	-	-	-	-	-
Construction	1,786,210	-	-	-	-	1,351,493	-	-	-	-
Wholesale and Retail	23,274,624	-	-	-	-	5,149,413	-	-	-	-
Service Activities	8,098,887	-	-	-	-	2,884,345	-	-	-	-
Real Estate Activities	307,600	-	-	-	-	1,409,119	-	-	-	-
Other	3,655,645	4,027,641	-	-	-	7,098,261	-	-	-	67,485
Total	**138,380,863**	**4,027,641**	**-**	**-**	**-**	**37,580,425**	**-**	**-**	**-**	**67,485**
Due from banks	**9,000,010**	**8,934**	**187,594**	**8,248,451**	**23,156,425**	**-**	**-**	**-**	**-**	**309,874**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.6 Financial Assets

(000) RSD

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
Financial Assets:				
- at fair value through profit and loss, held for trading	5.269.709	5,269,709	242,920	242,920
- available for sale	112,019,061	112,019,058	136,205,563	136,123,853
- held to maturity	-	-	84,169	-
Total	**117,288,770**	**117,288,767**	**136,532,652**	**136,366,773**

Financial assets at fair value through profit and loss relate to investment units of KomBank Cash Fund, which are valued through methodology of harmonization with market (mark to market). Swap transactions and bonds of the Republic of Serbia are also carried at fair value through profit and loss are valued through methodology of internally developed models (mark to model).

Available-for-sale financial assets are placements for which there is an intent to hold them in an indefinite period of time and which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, local self-government units and bonds of other banks. Available-for-sale securities are initially estimated at cost, and their fair value is calculated on a quarterly basis, based on market prices for securities traded on the stock market, as well as using internally developed models for mark to model in the case where independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly, nor are they recorded more significant trading volumes, and are based on the maturity of the security levels and levels of risk free interest rates.

Financial assets held to maturity relate as a whole to discounted bills, which were completely impaired on 31 December 2017 and were transferred to off-balance sheet in 2017.

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:

4. RISK MANAGEMENT (CONTINUED)

4.1.7. Credit Risk Hedges (Collaterals)

Loans and receivables from clients covered with collaterals

(000) RSD

31.12.2017	Performing Receivables					Non-Performing Receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	34,361,505	3,482	-	1,306,093	35,671,079	1,445,867	-	-	65,999	1,511,866
Cash Loans	57,369	427,817	-	11,036,713	11,521,899	9,447	7,157	-	216,073	232,677
Agricultural Loans	3,058,425	27,539	29,110	2,944,170	6,059,245	145,561	-	12	50,521	196,094
Other	-	5,115	-	91,574	96,689	8,968	4	-	1,444	10,416
Micro Busines	1,424,581	483,147	-	5,796,535	7,704,263	520,421	3,973	-	172,647	697,041
Total Retail	**38,901,880**	**947,100**	**29,110**	**21,175,085**	**61,053,174**	**2,130,264**	**11,134**	**12**	**506,683**	**2,648,094**
Large corporate clients	16,630,551	249,954	6,161,689	11,912,027	34,954,220	14,634,237	-	-	2,301,515	16,935,752
Middle corporate clients	4,664,724	450,957	-	4,531,344	9,647,024	1,806,786	-	-	224,391	2,031,176
Small corporate clients	1,493,305	346,296	-	2,115,904	3,955,505	1,249,791	14	-	134,348	1,384,153
State owned clients	397,383	2,261	709,940	5,048,865	6,158,448	9,160	-	669,596	72,511	751,267
Other	-	-	-	3,752,134	3,752,134	-	-	-	-	-
Total Corporate	**23,185,962**	**1,049,468**	**6,871,628**	**27,360,273**	**58,467,332**	**17,699,973**	**14**	**669,596**	**2,732,765**	**21,102,349**
Total	**62,087,842**	**1,996,568**	**6,900,738**	**48,535,358**	**119,520,506**	**19,830,238**	**11,148**	**669,608**	**3,239,449**	**23,750,442**
Out of which: restructured	459,915	20,225	59,233	219,208	758,582	16,683,792	-	-	2,028,654	18,712,446
Due from Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

4. RISK MANAGEMENT (CONTINUED)

4.1.7. Credit Risk Hedges (Collaterals) (continued)

Loans and receivables from clients covered with collaterals (continued)

(000) RSD

31.12.2016.	Performing Receivables					Non-Performing Receivables				
	Real Estate	Depostits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	35,914,239	-	-	1,032,768	36,947,007	1,697,855	-	-	106,185	1,804,040
Cash Loans	88,013	405,986	-	15,039,375	15,533,373	14,756	3,588	-	421,124	439,469
Agricultural Loans	3,111,711	4,251	43,661	2,617,460	5,777,082	207,062	-	1,364	179,919	388,345
Other	-	5,530	-	102,747	108,277	8,968	-	-	18,528	27,496
Micro Busines	1,245,673	620,072	3,476	4,705,743	6,574,964	781,406	691	-	279,147	1,061,244
Total Retail	**40,359,635**	**1,035,838**	**47,137**	**23,498,093**	**64,940,703**	**2,710,047**	**4,279**	**1,364**	**1,004,903**	**3,720,594**
Large corporate clients	20,289,070	287,947	490,772	10,878,406	31,946,195	18,425,986	-	1,799,847	3,864,613	24,090,446
Middle corporate clients	8,207,574	744,515	49,861	7,277,287	16,279,237	2,142,691	4,197	-	861,146	3,008,035
Small corporate clients	2,392,570	430,689	10,050	3,786,097	6,619,405	1,509,611	-	-	316,764	1,826,375
State owned clients	502,478	-	1,233,649	3,575,284	5,311,410	9,543	-	1,040,837	467,770	1,518,151
Other	1,239	-	-	4,028,189	4,029,428	2,060	-	-	-	2,060
Total Corporate	**31,392,930**	**1,463,151**	**1,784,332**	**29,545,262**	**64,185,675**	**22,089,891**	**4,197**	**2,840,685**	**5,510,294**	**30,445,066**
Total	**71,752,564**	**2,498,989**	**1,831,469**	**53,043,355**	**129,126,378**	**24,799,938**	**8,476**	**2,842,049**	**6,515,197**	**34,165,660**
Out of which: restructured	2,206,442	5,563	-	139	2,212,145	20,618,861	4,407	1,892,942	4,062,886	26,579,096
Due from Banks	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**

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

4. RISK MANAGEMENT (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 estimated value of the real estate held as collateral is monitored by the Loan To Value Ratio range - LTV ratios

Review of loans and receivables secured by mortgages according to LTV range

(000) RSD

	31 December 2017	31 December 2016
Less than 50%	27.072.008	28,108,827
50% - 70%	15.683.073	20,622,962
71% - 100%	17.678.221	22,710,195
101% - 150%	8.586.921	8,938,248
Greater than 150%	16.557.852	24,810,723
Total Expoasure	**85.578.076**	**105,190,955**
Average LTV	**69,05%**	**66,60%**

4.1.8. Material values acquired by collecting receivables

Security assets taken by the Bank in the process of collection of placements are presented in the following review

(000) RSD	Residential Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2016	81,622	2,646,759	111,624	162,889	3,002,894
Acquisition	-	-	-	-	-
Sales	(6,506)	(697,131)	(18)	-	(703,655)
31.12.2017	**75,116**	**1,949,628**	**111,606**	**162,889**	**2,299,239**
Impairment Allowances	**23,625**	**723,777**	**75,872**	**36,898**	**860,172**
Net	**51,491**	**1,225,851**	**35,734**	**125,991**	**1,439,067**

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Bank's financial result and equity resulting from the Bank'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 Bank 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.

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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 Bank 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 Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally defined limits, and monitoring of defined measures for reducing the bank'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 bank'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.

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

The Bank'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 Bank 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.

Starting from 30.06.2017., the Bank adjusts its operations with the regulated indicator of liquid assets coverage, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

(000) RSD

	Liquidity Ratio		**Rigid Liquidity Ratio**		**Liquid Assets Coverage**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
As at December 31	4.30	2.86	4.10	2.54	436%	596%
Average for the period	3.99	3.00	3.61	2.59		
Maximum for the period	5.61	3.62	5.21	3.16	-	-
Minimum for the period	2.79	1.88	2.41	1.67	-	-

During 2017, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with last day liquidity ratio limits internally defined:

(000) RSD

	Limits	**2017.**	**2016.**
GAP up to 1 month / Total assets	Max (10%)	2.16%	7.00%
Cumulative GAP up to 3 months / Total assets	Max (20%)	5.97%	10.02%

In addition, the Bank 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, 2017

(000) 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	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,686,959	3,818,128	169,242	869,460	-	29,543,789
Loans and receivables due from customers	9,806,670	8,007,522	31,304,441	66,132,086	38,646,648	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
	91,027,183	**27,148,949**	**51,128,037**	**145,888,815**	**39,476,118**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,217	745,420	759,789	745,079	-	4,532,505
Deposits and other liabilities due to customers	207,084,364	12,241,246	48,205,484	23,182,876	1,757,670	292,471,640
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
	214,468,902	**13,078,639**	**50,601,576**	**23,966,241**	**1,757,670**	**303,873,028**
Net liquidity gap						
As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**
	(115,635,179)	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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

(000) 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	55,153,209	-	-	-	-	55,153,209
Loans and receivables due from other banks and other financial institutions	36,219,153	3,388,184	-	994,076	-	40,601,413
Loans and receivables due from customers	9,113,791	10,092,590	36,823,101	57,483,448	36,898,479	150,411,409
Financial assets (securities)	4,850,950	13,068,035	47,072,509	69,558,081	1,817,198	136,366,773
Other assets	2,067,974	-	-	1,124,843	-	3,192,817
Total	**107,405,077**	**26,548,809**	**83,895,610**	**129,160,448**	**38,715,677**	**385,725,621**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,425,106	1,086,006	1,532,903	2,767,720	23,227	7,834,962
Deposits and other liabilities due to customers	216,058,611	16,265,810	63,184,786	25,278,902	1,833,251	322,621,360
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,556,539	-	1,047,493	-	-	5,604,032
	223,040,256	**17,351,816**	**71,943,572**	**28,046,622**	**1.856.478**	**342,238,744**
Net liquidity gap						
As of December 31, 2016	**(115,635,179)**	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**
As of December 31, 2015	**(71,477,632)**	**(2,982,662)**	**(8,306,378)**	**96,443,642**	**33,765,604**	**47,439,769**

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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 Bank 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 bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.

In near term, the Bank 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 Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

The Bank's management believes that the appropriate 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, which is why no significant outflows of funds are expected.

The Bank 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.

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2017

(000) 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	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,694,834	3,819,423	176,500	871,997	-	29,562,754
Loans and receivables due from customers	10,488,970	9,281,745	36,391,907	80,244,629	51,323,984	187,731,235
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
	91,717,358	**28,424,467**	**56,222,761**	**160,003,895**	**52,153,454**	**388,521,935**
	2,282,295	768,351	774,739	753,956	-	4,579,341
Deposits and other liabilities due to banks, other financial institutions and central bank	207,155,763	12,352,718	48,718,660	24,028,096	2,170,681	294,425,918
Deposits and other liabilities due to customers	-	-	-	-	-	-
Subordinated liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
	214,540,379	**13,213,042**	**51,129,702**	**24,820,338**	**2,170,681**	**305,874,142**
Net liquidity gap						
	(122,823,021)	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**
	(115,241,739)	**10,824,890**	**17,037,970**	**115,516,149**	**49,587,258**	**77,724,528**

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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

(000) 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	55,153,209	-	-	-	-	55,153,209
Loans and receivables due from other banks and other financial institutions	36,237,653	3,390,001	7,248	1,002,018	-	40,636,920
Loans and receivables due from customers	9,845,162	11,486,494	41,909,912	70,955,160	49,915,395	184,112,123
Financial assets (securities)	4,945,855	13,525,370	48,495,096	71,540,868	1,990,445	140,497,634
Other assets	2,067,974	-	-	1,124,843	-	3,192,817
Total	**108,249,853**	**28,401,865**	**90,412,256**	**144,622,889**	**51,905,840**	**423,592,703**
	2,427,393	1,127,564	1,589,883	2,831,253	23,445	7,999,538
Deposits and other liabilities due to banks, other financial institutions and central bank	216,507,660	16,449,411	64,273,297	26,275,487	2,295,137	325,800,992
Deposits and other liabilities due to customers	-	-	6,463,613	-	-	6,463,613
Subordinated liabilities	4,556,539	-	1,047,493	-	-	5,604,032
Total	**223,491,592**	**17,576,975**	**73,374,286**	**29,106,740**	**2,318,582**	**345,868,175**
Net liquidity gap						
As of December 31, 2016	**(115,241,739)**	**10,824,890**	**17,037,970**	**115,516,149**	**49,587,258**	**77,724,528**
As of December 31, 2015	**(71,327,156)**	**(802,003)**	**(2,473,971)**	**116,292,731**	**43,632,913**	**85,322,515**

Undiscounted cash flows arising from the items of monetary assets and monetary liabilities include future cash flows per balance sheet items and future interest.

4.3. Market Risk

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

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

4.3.1. Interest Risk

Interest rate risk represents the probability of negative effects on the Bank'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 Bank manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Bank is exposed due to changes in yield curve shape;
- Basis risk – to which the Bank 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 Bank 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 Bank manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Bank 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 Bank estimates the impact that could have standardized interest rate shock (parallel positive and negative shift of interest rates on the reference yield curve by 200 basis points) for each significant currency individually and for all other currencies together.

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

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

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 Bank 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 Bank's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Bank 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 Bank's exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Bank'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:

(000) RSD

	Limits	**2017**	**2016**
Relative GAP	Max 15%	2.18%	1.33%
Mismatch ratio	0.75 – 1.25	1.03	1.02

During 2017, interest rate risk indicators moved within internally defined limits.

In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.

Complianse with internally defined limits of economic value of capital

	2017	**2016**
As at December 31	3.65%	4.61%
Average for the year	3.86%	4.58%
Maximum for the year	4.49%	5.03%
Minimum for the year	3.03%	3.96%
Limit	**20%**	**20%**

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

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

(000) 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	15,047,611	-	-	-	-	15,047,611	34,793,276	49,840,887
Loans and receivables due from banks and other financial institutions	24,532,121	3,818,116	169,243	33,819	-	28,553,299	990,490	29,543,789
Loans and receivables due from customers	45,939,381	12,171,594	33,502,849	50,835,801	10,972,279	153,421,904	475,463	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,355	78,671,309	336,070	117,288,767	-	117,288,767
Other assets	-	-	-	-	-	-	4,098,292	4,098,292
Total	**90,193,240**	**29,942,616**	**53,326,447**	**129,540,929**	**11,308,349**	**314,311,581**	**40,357,521**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,289,289	2,168,102	58,951	13,295	22,397	4,552,035	-19,530	4,532,505
Deposits and other liabilities due to customers	209,182,984	13,728,127	46,267,101	21,090,450	1,273,646	291,542,308	929,332	292,471,640
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	6,868,883	6,868,883
Total	**211,472,273**	**15,896,229**	**46,326,052**	**21,103,745**	**1,296,043**	**296,094,343**	**7,778,685**	**303,873,028**
Interest rate GAP:								
At December 31. 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**
At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

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

(000) 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	20,295,058	-	-	-	-	20,295,058	34,858,151	55,153,209
Loans and receivables due from banks and other financial institutions	35,907,789	3,388,185	-	193,259	13,333	39,502,566	1,098,848	40,601,414
Loans and receivables due from customers	56,317,055	12,953,807	36,168,045	31,319,055	13,560,096	150,318,058	93,351	150,411,409
Financial assets (securities)	12,387,360	11,818,310	40,638,128	69,418,074	1,861,982	136,123,854	242,919	136,366,773
Other assets	-	-	-	-	-	-	3,192,817	3,192,817
Total	**124,907,262**	**28,160,302**	**76,806,173**	**100,930,388**	**15,435,411**	**346,239,536**	**39,486,086**	**385,725,622**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,481,677	4,048,224	1,265,781	16,051	23,227	7,834,962	-	7,834,962
Deposits and other liabilities due to customers	219,997,555	18,179,102	60,479,981	21,300,253	1,244,250	321,201,141	1,420,219	322,621,360
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,604,032	5,604,032
Total	**222,479,232**	**22,227,326**	**67,924,152**	**21,316,304**	**1,267,477**	**335,214,493**	**7,024,251**	**342,238,744**
Interest rate GAP								
-At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**
-At December 31, 2015	**(55,855,531)**	**18,627,271**	**(24,339,430)**	**57,696,895**	**13,686,001**	**9,815,107**	**37,624,664**	**47,439,771**

4. RISK MANAGEMENT (CONTINUED)

4.3.1. 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 Bank'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 Bank's assets and liabilities to different scenarios of changes in interest rates. The Bank performs regular interest rate risk stress testing to assess the estimated impact of the changes in the key factors on the Bank'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 Bank estimates based on historical trends and expert estimates. The Bank 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 Bank's sensitivity analysis, i.e. impact on the Bank'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:

(000) RSD

	Parallel increases by 100 b.p.	**Parallel decreases by 100 b.p.**
2017		
As at December 31	346,337	(346,337)
2016		
As at December 31	543,200	(543,200)

4.3.2. Currency Risk

The bank is exposed to foreign exchange risk, which manifests itself through the possibility of adverse effects on the financial result and capital due to the change in inter-currency relations, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. The foreign exchange risk is exposed to all positions contained in the banking book and trading book in foreign currency and gold, as well as RSD positions indexed by currency clause.

In order to minimize exposure to foreign exchange risk, the Bank performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking foreign currency risk from the process of its management. The primary role in the foreign exchange risk management process is performed by the competent committees within their competencies, whose decisions may influence the Bank's exposure to this risk.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank, in a comprehensive manner, identifies timely the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and indicator of foreign currency risk;
- VaR;
- Stress test;
- backtesting.

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile through the setting of a system of limits and defining measures to mitigate foreign exchange risk.

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

Foreign exchange risk control and monitoring includes monitoring and control of compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk during the day enabled the timely undertaking of measures in order to maintain foreign currency risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance compliance monitoring.

Foreign exchange risk reporting includes an internal and external reporting system and is carried out on a daily basis.

The Bank aligns its operations with the regulated foreign exchange risk limit, which represents the ratio of the open foreign currency position and gold and regulatory capital positions.

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

	2017	**2016**
Total currency risk balance	2,248,347	1,366,855
Currency risk ratio	4.40%	2.96%
Legally-defined limit	**20%**	**20%**

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

Breakdown of Monetary Assets and Monetary Liabilities per currencies as of December 31, 2017

	EUR	USD	CHF	Other currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	(000) RSD Total
Cash and cash funds held with the central bank	30,613,336	149,359	510,641	476,712	31,750,048	-	-	-	18,090,839	49,840,887
Loans and receivables due from banks and other financial institutions	6,471,500	2,901,236	2,696,013	2,187,682	14,256,431	-	-	-	15,287,358	29,543,789
Loans and receivables due from customers	11,565,610	-	-	-	11,565,610	95,727,011	-	4,011,996	42,592,750	153,897,367
Financial assets (securities)	70,944,119	9,062,663	1,782,330	-	81,789,112	332,778	-	-	35,166,877	117,288,767
Other assets	1,638,400	262,757	886	270	1,902,313	-	-	-	2,195,979	4,098,292
Total	**121,232,965**	**12,376,015**	**4,989,870**	**2,664,664**	**141,263,514**	**96,059,789**	**-**	**4,011,996**	**113,333,803**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,563,823	189,871	135,31	29,842	3,918,846	14,193	-	-	599,466	4,532,505
Deposits and other liabilities due to customers	211,143,575	10,753,027	8,623,783	2,533,382	233,053,767	203,045	18,890	-	59,195,938	292,471,640
Subordinated liabilities	-	-	-	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,337,660	1,026,547	84,513	12,923	2,461,643	8,921	-	-	4,398,319	6,868,883
Total	**216,045,058**	**11,969,445**	**8,843,606**	**2,576,147**	**239,434,256**	**226,159**	**18,890**	**-**	**64,193,723**	**303,873,028**
Net Currency Position, 31 December 2017	**(94,812,093)**	**406,570**	**(3,853,736)**	**88,517**	**(98,170,742)**	**95,833,630**	**(18,890)**	**4,011,996**	**49,140,080**	**50,796,074**

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

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

(000) 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	30,320,285	148,391	641,510	421,985	31,532,171	-	-	-	23,621,038	**55,153,209**
Loans and receivables due from banks and other financial institutions	9,277,053	2,539,540	2,770,321	1,977,720	16,564,634	-	-	-	24,036,779	**40,601,413**
Loans and receivables due from customers	9,151,906	28	-	-	9,151,934	100,525,385	-	4,983,042	35,751,048	**150,411,409**
Financial assets (securities)	81,213,474	9,346,992	1,818,930	-	92,379,396	431,303	-	-	43,556,074	**136,366,773**
Other assets	829,122	210,115	320	35	1,039,592	6	-	-	2,153,219	**3,192,817**
Total	**130,791,840**	**12,245,066**	**5,231,080**	**2,399,741**	**150,667,727**	**100,956,694**	**-**	**4,983,042**	**129,118,158**	**385,725,621**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,807,932	198,158	108,161	12,672	**7,126,923**	7,646	-	-	700,393	**7,834,962**
Deposits and other liabilities due to customers	216,383,033	10,870,036	10,135,682	2,266,886	**239,655,637**	319,995	22,325	-	82,623,404	**322,621,360**
Subordinated liabilities	6,186,827	-	-	-	**6,186,827**	**-**	-	-	-8,437	**6,178,390**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,161,729	545,298	47,482	13,996	**1,768,505**	-	-	-	3,835,527	**5,604,032**
Total	**230,539,521**	**11,613,492**	**10,291,325**	**2,293,553**	**254,737,891**	**327,641**	**22,325**	**-**	**87,150,886**	**342,238,744**
Net Currency Position, 31 December 2016	**(99,747,681)**	**631,574**	**(5,060,245)**	**106,188**	**(104,070,164)**	**100,629,053**	**(22,325)**	**4,983,042**	**41,967,272**	**43,486,877**

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

Ten-Day VaR

The Bank 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 Bank's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Bank'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 Bank calculates the VaR by using the generalized autoregressive-conditional heteroskedastic model GARCH 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 2017 and 2016 is presented in the table below:

(000) RSD

	As of December 31	**Average**	**Maximum**	**Minimum**
2017				
Currency risk	27,581	28,580	54,272	15,905
2016				
Currency risk	15,565	28,025	78,636	9,782

4.4. Operational Risk

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

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

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

4. RISK MANAGEMENT (CONTINUED)

4.4. Operational Risk (continued)

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

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank 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 which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

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

The Bank 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 Bank 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 Bank's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank's organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank'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 Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank 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 Bank adopted the Disaster Recovery Plan.

4. RISK MANAGEMENT (CONTINUED)

4.5. The Bank's Investment Risks

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, whereby such investments entail investments through which the Bank acquires equity interest or shares in a non-financial sector entity. The total Bank's investment in non-financial sector entities and Bank's own fixed assets cannot exceed 60% of the Bank'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.

4.6. Exposure Risk

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

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

- The Bank's exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

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

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

4. RISK MANAGEMENT (CONTINUED)

4.7. Country Risk

Country risk relates to the risk of the country of origin of the entity the Bank is exposed to, i.e. the possibility of negative effects on the Bank'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 Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;
- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

Management of country risk is made per individual loans and receivables and at the Bank's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Bank'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 Bank's equity, depending on the internal country rating category. The Bank 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 Bank defines exposure limits individually per borrower country of origin.

The Bank's loans approved to the borrowers domiciled outside of the Republic of Serbia for financing businesses in the Republic of Serbia, whose financial liabilities to the Bank are expected to be settled from the operating results achieved in the Republic of Serbia, represent the Bank's receivables without exposure to the risk of the borrower country of origin.

4. RISK MANAGEMENT (CONTINUED)

4.8. Fair value of financial assets and liabilities

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

(000) RSD

	31.12.2017					31.12.2016	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	153,897,367	151,658,208	-	-	151,658,208	150,411,409	147,655,809
Financial Liabilities							
Deposits and other liabilities due to customers	292,471,640	292,389,981			292,389,981	322,621,360	322,502,251

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 Bank 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 Bank's Business Policy.

4. RISK MANAGEMENT (CONTINUED)

4.8. Fair value of financial assets and liabilities (continued)

4.8.2. Financial instruments measured at fair value

(000) RSD

31.12.2017	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	417,643	4,852,066	-	5,269,709
Securities available for sale (RSD)	-	33,137,523	-	33,137,523
Securities available for sale (FC)	-	78,548,757	332,778	78,881,535
Total	**417,643**	**116,538,346**	**332,778**	**117,288,767**

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	242,920	-	-	242,920
Securities available for sale (RSD)	-	43,313,154	-	43,313,154
Securities available for sale (FC)	-	92,379,396	431,303	92,810,699
Total	**242,920**	**135,692,550**	**431,303**	**136,366,773**

Level 1 shares are traded on the stock exchange, while Level 2 contains securities of which the fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).

The fair value of assets which are not actively traded is classified into level 3.

4. RISK MANAGEMENT (CONTINUED)

4.9. Capital management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual protective layers of capital;
- respect of the minimum regulatory capital adequacy ratios increased for the combined protection layer of capital;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank’s regulatory capital represents the sum of the share capital (composed of the basic share capital and the additional share capital) and the supplementary capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, basic or basic share) of the Bank and collections: risk weighted exposure to credit risk, counterparty risk, risk of decreased value of purchased receivables and risk of settlement / delivery on free delivery, settlement / delivery risk except on the basis of free delivery), market risks (including foreign exchange and price risk), operational risk and other risks from Pillar I. The risk weighted exposure to credit risk, the counterparty risk, the risk of a decrease in the value of the purchased receivables and the risk of settlement / delivery on the basis of free delivery are determined in accordance with the prescribed risk weight for all classes of assets. Risk assets based on exposure to operational risk are obtained by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (CONTINUED)

4.9. Capital management (continued)

Capital adequacy ratio

		(000) RSD
	31.12.2017	**31.12.2016**
Share Capital	55,122,806	44,667,035
Basic Share Capital	54,749,296	-
Additional Share Capital	373,510	-
Supplementary Capital	-	4,175,529
Deductible items	(3,992,144)	(2,611,859)
Capital	**51,130,662**	**46,230,705**
Credit risk-weighted assets	146,903,022	147,355,392
Operational risk exposure	31,680,737	21,710,322
Foreign currency risk exposure	4,761,814	2,338,631
Capital adequacy ratio (min. 14,40%)	**27.89%**	**26.97%**
Share capital adequacy ratio (мin. 12,40%)	**27.89%**	**-**
Basic share capital adequacy ratio (min. 10,90%)	**27.68%**	**-**

Note: Data for December 31, 2017 and 2016 are not comparable since the regulatory framework has been changed during 2017.

4. RISK MANAGEMENT (CONTINUED)

4.9. Capital management (continued)

During 2017, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital protection, 6% + combined protection layer of capital and 4.5% + combined protection layer of capital for indicators of the adequacy of total, basic and basic equity capital respectively).

Through its Capital Management Strategy and Capital Management Plan, the Bank 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.

During 2017, the Bank also calculated the leverage indicator in accordance with the regulatory requirement, which represents the ratio of the share capital and the amount of exposure that are included in the calculation of the indicator.
The Capital Management Plan, as part of the capital management system, includes:

- strategic goals and the period for their realization;
- a description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- procedures for planning an adequate level of available internal capital;
- the way to reach and maintain an adequate level of available internal capital;
- restrictions on available internal capital;
- demonstrating and explaining the effects of stress testing on internal capital requirements;
- allocation of capital;
- business plan in case of occurrence of unforeseen events.

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement,
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed,
- provides an adequate level of available internal capital in accordance with the risk profile of the Bank,
- is involved in the Bank's management system and decision-making,
- subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- calculation of the amount of internal capital requirements for individual risks;
- determining the total internal capital requirement;
- comparing the following elements
    - capital and available internal capital;
    - minimum capital requirements and internal capital requirements for individual risks;
    - collecting minimum capital requirements and total internal capital requirements.

5. USE OF ESTIMATES

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

Key Sources of Estimation Uncertainty

Provisions for Credit Losses

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

A part of the impairment provision relating to counterparty risk relates to financial assets that are individually assessed and based on the best estimate of the management of the present value of future cash flows whose inflow is expected. When estimating these cash flows, the management makes estimates of the financial position of the other counterparty and the net sales value of the present collateral. For each impaired asset, its value, as well as the exit strategy, is assessed, where the credit risk function independently approves the estimation of cash flows that are considered to be recoverable.

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

Determining Fair Values

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

5. USE OF ESTIMATES (CONTINUED)

Critical Accounting Judgments in Applying the Bank's Accounting Policies

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

Impairment of Investments in Equity Shares

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

Valuation of Financial Instruments

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the 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 Bank 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

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

When considering profitability / results of each segment, besides income and expenses generated from business with clients, income and expenses from internal relations calculated using transfer prices that are determined based on market price (net income/expenses from internal relations), are included.

A decisive impact on the result in 2017 had indirect impairment income which amounted to RSD 17,883 thousand (of which the collected impaired receivables amounted to RSD 738,594 thousand). Also, the amount of the results, besides the net income of indirect impairments, was also affected by the court litigation in the amount of 562,745 thousand RSD.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the 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 7,639,242 thousand and make up 70.5% 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 5,783,836 thousand of direct costs (75.7% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2017, the Bank realized pre-tax profit in the amount of RSD 7,187,250 thousand.

6. SEGMENT REPORTING (CONTINUED)

Operating segments report for 2017 is provided below:

(000) RSD

	Retail Banking*	Corporate Banking	Invesment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,367,966	2,649,990	5,034,480	-	14,052,436
Interest expenses	(880,868)	(224,091)	(501,280)	-	(1,606,239)
Net interest income	5,487,098	2,425,899	4,533,200	-	12,446,197
Net income/expenses from related party transactions	(886,255)	(768,155)	1,654,410	-	-
Net fee and commission income	3,198,742	1,290,502	592,982	-	5,082,226
Profit before impairment allowance	**7,799,585**	**2,948,246**	**6,780,592**	**-**	**17,528,423**
Net gains/losses from impairment allowance	(310,881)	266,53	62,234	-	17,883
Profit before operating expenses	**7,488,704**	**3,214,776**	**6,842,826**	**-**	**17,546,306**
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(7,639,242)
Net foreign exchange gains/losses	-	-	(56,358)	-	(56,358)
Net other income and expenses	(82,584)	557,765	55,202	-	530,383
Profit before indirect operating expenses	**1,622,284**	**2,099,822**	**6,658,983**	**-**	**10,381,089**
Indirect operating expenses**	(1,612,287)	(1,237,636)	(343,916)	-	(3,193,839)
Profit before tax	**9,997**	**862,186**	**6,315,067**	**-**	**7,187,250**

** 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)

Operating segments report for 2017 is provided below:

	Retail Banking*	Corporate Banking	Invesment and Interbank operations	Other	Total
Assets per segment					
Cash and cash funds held with the central bank	-	-	49,840,887	-	49,840,887
Loans and receivables due from banks and other financial institutions	-	-	29,543,789	-	29,543,789
Loans and receivables due from customers	81,512,171	72,385,196	-	-	153,897,367
Investment securities	-	-	117,288,767	-	117,288,767
Other	-	-	2,611,859	16,000,869	18,612,728
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**369,183,538**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	4,532,505	-	4,532,505
Deposits and other liabilities due to customers	230,900,337	52,610,572	8,960,731	-	292,471,640
Subordinated liabilities	-	-	-	-	-
Other	-	-	-	8,919,338	8,919,338
	230,900,337	**52,610,572**	**13,493,236**	**8,919,338**	**305,923,483**

** Loans to micro clients are presented within Retail banking segment*

6. SEGMENT REPORTING (CONTINUED)

Operating segments report for 2016 is provided below:

(000) RSD

	Retail banking*	Corporate banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,622,978	3,806,948	6,259,149	-	16,689,075
Interest expenses	(1,680,595)	(409,129)	(1,136,617)	-	(3,226,341)
Net interest income	4,942,383	3,397,819	5,122,532	-	13,462,734
Net income/expenses from related party transctions	(434,154)	(1,166,544)	1,600,698	-	-
Net fee and commission income	3,040,383	1,335,521	441,410	-	4,817,314
Profit before impairment allowance	**7,548,612**	**3,566,796**	**7,164,640**	**-**	**18,280,048**
Net gains/losses from impairment allowance	(858,376)	(11,021,735)	(3,027,428)	-	(14,907,539)
Profit before operating expenses	**6,690,236**	**(7,454,939)**	**4,137,212**	**-**	**3,372,509**
Direct operating expenses	(5,250,911)	(1,841,981)	(292,810)	-	(7,385,702)
Net foreign exchange gains/losses	-	-	(9,282)	-	(9,282)
Net other income and expenses	(18,075)	(555,513)	(80,417)	-	(654,005)
Profit before indirect operating expenses	**1,421,250**	**(9,852,433)**	**3,754,703**	**-**	**(4,676,480)**
Indirect operating expenses**	(2,020,778)	(1,340,184)	(340,194)	-	(3,701,156)
Profit before tax	**(599,528)**	**(11,192,617)**	**(3,414,509)**	**-**	**(8,377,636)**
Assets per segment					
Cash and cash funds held with the central bank	-	-	55,153,209,	-	55,153,209
Loans and receivables due from banks and other financial institutions	-	-	40,601,413	-	40,601,413
Loans and receivables due from customers	75,323,551	75,087,858	-	-	150,411,409
Investment securities	-	-	136,366,773	-	136,366,773
Other	-	-	2,611,859	14,872,806	17,484,665
	75,323,551	**75,087,858**	**234,733,254**	**14,872,806**	**400,017,469**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	7,834,962	-	7,834,962
Deposits and other liabilities due to customers	232,633,347	78,399,262	11,588,751	-	322,621,360
Subordinated liabilities	-	-	6,178,390	-	6,178,390
Other	-	-	-	7,958,455	7,958,455
	232,633,347	**78,399,262**	**25,602,103**	**7,958,455**	**344,593,167**

* 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:

(i) 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.

(ii) Fixed rate financial instruments

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

8. NET INTEREST INCOME

Net interest income includes:

		(000) RSD
	Year ended 31 December	
	2017	**2016**
Loans and receivables due from banks	302,541	379,351
Loans and receivables due from customers	9,017,954	10,430,418
Central bank	371,056	475,643
Investment securities	4,360,885	5,403,663
Total interest income	**14,052,436**	**16,689,075**
Deposits from and liabilities due to banks and other financial institutions	102,577	266,437
Deposits from and liabilities due to customers	1,112,608	2,206,177
Borrowings received	391,054	753,727
Total interest expenses	**1,606,239**	**3,226,341**
Net interest income	**12,446,197**	**13,462,734**

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

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	(000) RSD Year ended 31 December 2017	2016
Fees and commission income in domestic currency		
Payment transfer operations	3,243,428	3,050,088
Fees on issued loans and guarantees - retail customers	28,845	27,006
Fees on issued loans and guarantees - corporate customers	152,973	183,068
Fees on purchase and sale of foreign currencies	455,964	453,082
Brokerage and custody fees	37,390	63,605
Fees arising from card operations	1,795,591	1,540,404
Credit Bureau processing fees	87,771	88,011
Other banking services	544,317	603,584
	6,346,279	**6,008,848**
Fees and commission income in foreign currencies		
Payment transfer operations	109,763	102,541
Fees on issued loans and guarantees - corporate customers	9,250	4,884
Brokerage and custody fees	12,778	9,011
Fees arising from card operations	221,473	127,036
Other banking services	673	50
	353,937	**243,522**
	6,700,216	**6,252,370**
Fee and commission expenses in domestic currency		
Payment transfer operations	125,732	121,816
Fees arising on purchase and sale of foreign currencies	64,340	33,396
Fees arising from card operations	770,319	520,990
Credit Bureau processing fees	78,149	72,978
Other banking services	139,701	149,251
	1,178,241	**898,431**
Fee and commission expenses in foreign currencies		
Payment transfer operations	72,877	63,302
Fees arising from card operations	329,074	290,972
Other banking services	37,798	182,351
	439,749	**536,625**
	1,617,990	**1,435,056**
Net fee and commission income	**5,082,226**	**4,817,314**

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	(000) RSD Year ended 31 December 2017	2016
Gains on the fair value adjustment of securities – bonds	12,643	2,920
Gains on the fair value adjustment of securities – investment units	51,739	-
Gains on the fair value adjustment of securities – shares	47,261	70,138
Gains on the sales of securities at fair value through profit and loss	**111,643**	**73,058**
Losses on the fair value adjustment of securities – shares	(7,845)	
Losses on the fair value adjustment of securities – bonds	-	(2,580)
Losses on the fair value adjustment of securities – investment units	**(7,845)**	**(2,580)**
Losses on the sales of securities and other financial assets held for trading		
Net gains on the financial assets held for trading	**103,798**	**70,478**

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

Net gains on the financial assets available for sale include:

	(000) RSD Year ended 31 December 2017	2016
Gains on the sale of securities available for sale	44,534	69,927
Losses on the sale of securities available for sale	(211)	(865)
Net gains on the financial assets available for sale	**44,323**	**69,062**

Gains on the sale of securities available for sale in the amount of RSD 44,534 thousand relate to gains from the sale of bonds of the Republic of Serbia in RSD in the amount of RSD 44,081 thousand and foreign currency in the amount of RSD 453 thousand.

Losses on securities available for sale in the amount of RSD 211 thousand relate to losses from the sale of bonds of the Republic of Serbia in RSD.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

		(000) RSD
	Year ended 31 December	
	2017	2016
Positive currency clause effects	1,325,087	2,510,561
Positive currency clause effects – value adjustment of securities	7,533	13,227
Foreign exchange gains – value adjustment of lliabilities	17,989	13,173
Positive currency clause effects – retail customers	427,235	1,281,370
Foreign exchange gains	12,598,243	2,343,797
	14,376,087	**6,162,128**
Negative currency clause effects	(3,575,513)	(1,437,016)
Negative currency clause effects – value adjustment of securities	(24,147)	(5,290)
Negative currency clause effects – value adjustment of liabilities	(4,170)	(37,809)
Negative currency clause effects – retail customers	(2,546,402)	(616,606)
Foreign exchange losses	(8,282,213)	(4,074,689)
	(14,432,445)	**(6,171,410)**
Net expense	**(56,358)**	**(9,282)**

13. OTHER OPERATING INCOME

a) Other operating income relates to:

	(000) RSD	
	Year ended 31 December	
	2017	2016
Other income from operations	174,837	156,919
Revenues from the abolition of unused provisions. by lawsuits (Note35)	25,426	-
Other income	737,514	383,901
Gains on the valuation of property and equipment	-	32,415
Total	**937,777**	**573,235**

Within the operating income position, the largest amounts relate to: fees for renting real estate in the country in the amount of RSD 101,238 thousand (of which RSD 76,908 thousand relates to income from renting real estate for business purposes), income per based on the refund of communal expenses in the amount of RSD 31,545 thousand, revenues from the refund of other costs in the amount of RSD 15,154 thousand, income from pre-paid costs of court proceedings upon the judgments received in the amount of RSD 19,248 thousand and income from the lease of office space abroad 5,553 thousand.

During 2017, the Bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 9,137 thousand (2016: RSD 15,712 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 5,318 thousand, AIK Bank in the amount of RSD 2,941 thousand and MasterCard in the amount of RSD 878 thousand.

Within the position of other revenues in 2017, the most significant items are revenues:

- On the basis of the won court dispute based on the final judgment of the Supreme Court of Cassation in the amount of RSD 566,450 thousand
- The termination of liabilities in the amount of RSD 64,376 thousand based on the income of materially insignificant liabilities on the basis of inactive parties of current, dinar and foreign currency accounts of natural persons who in the course of 2017 fulfilled the conditions prescribed by the decision of the Executive Board of the Bank. In the event of a subsequent withdrawal of the client for the outgoing debtor, the same will be made against the expense of the Bank's expense.
- Income from sale of non-current assets acquired by collecting receivables in the amount of RSD 29,548 thousand
- Revenue from lease from previous years based on the arrival of payments from 2015 and 2016 in the amount of RSD 19,847 thousand
- Based on interest from the early years - population in the amount of RSD 16,160 thousand
- Based on interest from the early years - economy in the amount of RSD 12,231 thousand.

b) Net gains on investments

	(000) RSD	
	Year ended 31 December	
	2017.	2016.
Gains on sales of JUBMES bank	306	5,143
Total	**306**	**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:

(000) RSD

	Year ended 31 December 2017	2016
Impairment allowance of loans and receivables	(11,106,990)	(25,447,320)
Provisions for off-balance sheet items	(276,066)	(522,126)
Reversal of impairment allowance of loans and receivables	10,340,416	10,372,904
Reversal of provisions for off-balance sheet items	321,929	631,308
Income from collection of receivables previously written-off	738,594	57,695
Total	**17,883**	**(14,907,539)**

Within the expenses on impairment of balance sheet items, the Bank has also recorded impairment of foreclosed assets acquired through collection of receivables in the amount of RSD 169,674 thousand (Note 30), based on the valuation of the property and equipment by the authorized appraiser, in accordance with the Bank's internal act.

During 2017, the collected receivables in the amount of RSD 738,594 thousand mostly relate to collecting receivables from the off-balance sheet for which the previously permanent write-off from the balance sheet to the off-balance sheet was performed. The most significant amounts of payment are related to: Concern Farmakom MB doo in bankruptcy in the amount of RSD 246,416 thousand , IMK 14, Oktobar Krusevac in the amount of RSD 246,913 thousand, HI Zupa ad Krusevac in the amount of RSD 23,458 thousand, Gemax doo Belgrade in bankruptcy in the amount of RSD 21,011 thousand and Beohemija doo in the amount of RSD 15,140 thousand.

By the end of January 2018, material impairments of impaired placements were not carried out, which would have the effect of eliminating the impairment in accordance with the requirements of IAS 10.

(000) RSD

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investmet securities (Notes 21 and 22)	Investment in subsidiaries (Note 25)	Other assets (Note 30)	Off-balance sheet liabilities (Note 35)	Total
Balance as of January 1, 2017	**309,874**	**29,645,005**	**165,879**	**2,869,029**	**2,532,688**	**430,941**	**35,953,416**
New impairment allowance	-	10,592,617	29,813	-	484,560	276,066	11,383,056
Decrease in impirment allowance	(60,561)	(10,123,228)	(27,211)	-	(129,416)	(321,929)	(10,662,345)
Foreign exchange effects	(46,755)	(772,235)	(3,523)	-	(10,726)	-	(833,239)
Permanent write-off	-	(12,089,069)	(164,955)	-	(19,098)	-	(12,273,122)
Other movements		781,509*	-		(401,145)	(260,686)	119,678
Balance as of December 31, 2017	**202,558**	**18,034,599**	**3**	**2,869,029**	**2,456,863**	**124,392**	**23,687,444**

*Use of alternative methods IRC method refers to the netting of interest income and expense on impairment allowances

In 2017, the Bank made an increase in the net expense of impairment and provisioning in the total amount of RSD 720,711 thousand.

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

Of the other changes in the accounts of value adjustments and provisions, the amount of RSD 12,273,122 thousand relates to the permanent write-off performed by the Bank in 2017 by transfer from balance sheet to off-balance sheet on the basis of the NBS Decision on accounting write-off of balance sheet assets

15. STAFF COSTS

Staff costs include:

		(000) RSD
	Year ended 31 December	
	2017	2016
Net salaries	2,733,546	2,703,672
Net benefits	435,931	444,472
Payroll taxes	402,439	395,782
Payroll contributions	830,100	800,724
Considerations paid to seasonal and temporary staff	11,587	13,934
Provisions for retirement benefits – net (Note 35)	33,809	64,866
Other staff costs	72,785	74,762
Total	**4,520,197**	**4,498,212**

16. DEPRECIATION/AMORTIZATION CHARGE

		(000) RSD
	Year ended 31 December	
	2017	2016
Amortization charge – intangible assets (Note 26.2)	143,181	203,330
Depreciation charge – property and equipment (Note 27.2)	379,746	409,824
Depreciation charge – investment property (Note 28.1)	40,655	52,871
Total	**563,582**	**666,025**

17. OTHER EXPENSES

Other expenses include:

		(000) RSD
	Year ended 31 December	
	2017	**2016**
Cost of materials	367,932	348,681
Cost of production services	2,033,338	2,067,603
Non-material costs (without taxes and contributions)	2,475,068	2,690,370
Taxes payable	129,512	125,828
Contributions payable	751,661	729,322
Other costs	25,600	25,683
Other expenses	262,117	305,835
Losses on the valuation of property and equipment, investment property and intangible assets (Note 28 and 29)	86,708	632,721
Provisions for litigations (Note 35)	173,187	368,501
Total	**6,305,123**	**7,294,544**

a) Other expenses

Within the position of other expenditures in the amount of RSD 262,117 thousand, among others are recorded:

- expenditures on the basis of outflow of funds for seven lost court disputes in the amount of RSD 61,503 thousand for which the Bank did not incurred a provision too badly, or the amount from the final judgment was higher than the previously reserved amount.
- expenditures based on paid invoices to the insurance company for life insurance policies of clients valued for the Bank in the amount of RSD111,554 thousand, and whose payment was taken over by the Bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenditures by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 50,913 thousand are shown in this position, and
- losses from depreciation and write-off of fixed assets and intangible investments in the amount of RSD 5,409 thousand

b) Provision for litigations

Expenses related to provisions for litigation in the total amount of RSD 173,187 thousand (Note 35) relate to:

- increase of expenses for eight new cases - claims in the amount of RSD 105,749 thousand and
- net increase in expenses for active items from previous years in the amount of RSD 42,012 thousand.

18. INCOME TAXES

18.1 Components of income taxes as of December 31 were as follows:

	(000) RSD Year ended 31 December 2017	2016
Deferred income tax benefits	1,335,828	314,453
Deferred income tax expenses	(405,710)	-
Total	**930,118**	**314,453**

During 2017, on the basis of the conducted analysis and estimates, gains arising from the creation of deferred tax assets from transferred tax losses were recognized, to the extent that it is certain that it will be used, ie in the amount of RSD 1,235,813 thousand. Of this amount for covering the taxable profit for RSD 2017, 368,667 thousand were utilized in the amount of deferred tax losses.

In 2017 and 2016, the Bank did not disclose current income tax on the basis of current tax regulations.

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

	2017	2017	2016	(000) RSD 2016
Profit for the year before taxes		**7,187,250**		**(8,377,636)**
Tax calculated using the local income tax rate	15%	1,078,087	-15%	(1,256,645)
Expenses not recognized for tax purposes	-0.41%	(29,449)	7.82%	655,221
Tax effects of the net capital losses /gains	-0.01%	(562)	-0.07%	(6,169)
Tax effects of income reconciliation	0.03%	1,868	-0.12%	(9,686)
Tax credit received and used in the current year	-5.13%	(368.666)	0.07%	6,169
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-9.48%	(681,278)	-10.11%	(846,851)
Tax effect adjustments (used and new ones)	-12.94%	(930,118)	-3.75%	(31,453)
Tax effects stated within the income statement		**930,118**		**314,453**

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

	(000) RSD Year ended 31 December 2017	2016
Balance as of January 1	(23,592)	(329,258)
Occurrence and reversal of temporary differences	880,688	305,666
Balance as of December 31	**857,096**	**(23,592)**

18. INCOME TAXES (CONTINUED)

18.4 Current tax assets:

	31 December 2017	31 December 2016
		(000) RSD
Current tax assets (paying a monthly installment income tax for 2017 according to the Income Tax law)	-	-

During 2017, the Bank did not pay income tax, as in 2016 it reported a tax loss.

18.5 Deferred tax assets and liabilities

18.5.1. Deferred tax assets and liabilities related to:

(000) RSD

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assetsfor tax and financial reporting purposes	112,277	-	112,277	77,473	-	77,473
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	867,146	-	867,146	-	-	-
Long-term provisions forretirement benefits	624	(530,171)	(529,547)	899	(566,448)	(565,549)
Impairment of assets	35,322	-	35,322	41,978	-	41,978
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	265,532	-	265,532	284,297	-	284,297
Provisions for litigations						
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	1,192	-	1,192	1,134	-	1,134
	118,797	-	118,797	137,075	-	137,075
Total	-	(13,623)	(13,623)	-	-	-
Total	**1,400,890**	**(543,794)**	**857,096**	**542,856**	**(566,448)**	**(23,592)**

18. INCOME TAXES (CONTINUED)

18.5 Deferred tax assets and liabilities (continued)

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

(000) RSD

Type of tax credit	Year	Amount as of 31.12.2017	Amount as of 31.12.2016	Expiration date for use
	2014	-	388,385	2019
	2015	2,533,717	10,384,084	2020
Tax losses carried forward	2016	9,719,742	9,719,742	2021
Total tax losses carried forward		**12,253,459**	**20,492,211**	
Impact of tax losses on future income tax (15%)		1,838,019	**3,073,832**	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	13,154	13,154	2019
Total tax credits for future income tax liabilities		**1,866,865**	**3,102,678**	

The transfer of tax losses that are not recorded in the Bank's books and on the basis of which no tax assets have been formed and can be used to cover the tax on profits in the following periods amount to a total of RSD 12,253,459 thousand and relate to the tax loss realized in 2015-2016. year.

Deferred tax assets were not formed for tax credits on the basis of investments in fixed assets in the amount of RSD 15,692 thousand, nor on the basis of tax credits for intercompany dividends in the amount of RSD 13,154 thousand.

Tax credits on which no deferred tax assets were formed in 2017 were reduced in relation to 2016, due to their recognition to the extent that it is certain that they will be used, in accordance with IAS 12 (note 18.1).

18.5.3 Movements in temporary difference durin 2017 and 2016 are shown as follows:

(000) RSD

2017	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Tax losses carried forward	-	867,146	-	-	867,146
Impairment of assets	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Actarial gains / (losses)	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Assets based on the payment of other employee liabilities	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

18. INCOME TAXES (CONTINUED)

18.5.3 Movements in temporary difference during 2017 and 2016 are shown as follows (continued):

(000) RSD

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)**

18.6 Tax effects relating to Other comprehensive income

(000) RSD

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	(241,847)	36,277	(205,570)	364,619	(54,693)	309,926
Net decrease due to actual losses	24,648	(23,517)	1,131	(3,626)	544	(3,082)
Valuation of property	-	(61,917)	(61,917)	58,580	(3,073)	55,507
Decrease due to fair value adjustments of equity investments and securities available for sale	1,823	(274)	1,549	262,184	(39,327)	222,857
Total	**(215,376)**	**(49,431)**	**(264,807)**	**681,757**	**(96,549)**	**585,208**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

	31 December 2017	(000) RSD 31 December 2016
In RSD		
Cash on hand	3,043,314	3,325,905
Gyro account	15,047,427	20,295,034
Other RSD cash funds	99	100
	18,090,840	**23,621,039**
In foreign currencies		
Cash on hand	3,875,812	3,092,751
Gyro account	27,874,051	28,439,396
Other cash funds	184	23
	31,750,047	**31,532,170**
Total	**49,840,887**	**55,153,209**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	4,348,062	8,231,797
Foreign currency obligatory reserves	(27,874,051)	(28,439,396)
	(23,525,989)	**(20,207,599)**
Cash and cash equivalents reported in statement of cash flows	**26,314,898**	**34,945,610**

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.75% annually.

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

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015. (Official Gazzete 102/2015), the ratesapplied 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
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied.

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the country of the currency.

Other foreign currency cash in the amount of RSD 184 thousand (2016: RSD 23 thousand) relate to account calculations with the Central Registry of securities for Trade with securities.

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

Financial assets held for trading comprise:

		(000) RSD
	31 December 2017	**31 December 2016**
Securities held for trading (in RSD)	2,029,354	242,920
Securities held for trading (in foreign currencies)	3,240,355	-
Total (Note 4.1.6)	**5,269,709**	**242,920**

Breakdown of financial assets held for trading is provided below:

		(000) RSD
	31 December 2017	**31 December 2016**
Republic of Serbia bonds (in RSD)	1,611,711	-
Investment units of OIF monetary fund (in RSD)	417,643	242,920
Republic of Serbia bonds (in foreign currencies)	3,240,355	-
Total	**5,269,709**	**242,920**

Investment units as at December 31, 2017 in the total amount of RSD 417,643 thousand refer to investment units KomBank Monetary Fund, Belgrade.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

	31 December 2017	(000) RSD 31 December 2016
Securities available for sale (in RSD)	33,470,304	43,826,167
Securities available for sale (in foreign currencies)	78,548,757	92,379,396
Total (Notes 4.1.6)	112,019,061	136,205,563
Impairment allowance of securities available for sale	(3)	(81,710)
Total	**112,019,058**	**136,123,853**

Securities available for sale (in RSD) as of December 31, 2017 relate to bonds of the Republic of Serbia in the amount of RSD 33,137,523 thousand (2016: RSD 33,905,659 thousand), bonds - the budget of the City of Pančevo and the municipalities of Stara Pazova and Šabac in in the amount of RSD 332,781 thousand (2016: RSD 431,302 thousand).

Impairment allowance entirety relates to bonds of local governments.

Securities available for sale (in foreign currency) as at 31 December 2017 relate to long-term government bonds in the amount of RSD 76,766,427 thousand (2016: RSD 85,773,869 thousand) of foreign banks' bonds Raiffeisen Bank International in the amount of RSD 1,782,330 thousand (2016: RSD 1,818,930 thousand).

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

Impairment allowance of securities available for sale	31 December 2017	(000) RSD 31 December 2016
Individual impairment allowance		
Balance at January 1	81,710	370
Current year impairment allowance:		
Change for the year (Note 14)	29,813	81,230
Effects of the changes in foreign exchange rates (Note 14)	(3,523)	115
Reversal (Note 14)	(27,211)	(5)
Permanent write-off	(80,786)	-
Total individual impairment allowance	**3**	**81,710**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

(000) RSD

	31 December 2017	31 December 2016
Securities held to maturity (discounted bills of exchange) (note 4.1.6)	-	84,169
Impairment allowance of securities held to maturity	-	(84,169)
Total	**-**	**-**

Impairment allowance of securities held to maturity

(000) RSD

	31 December 2017	31 December 2016
Balance as of January 1	84,169	97,669
Impairment allowance for the year:		
Charge for the year (Note 14)	-	936
Reversal (Note14)	-	(936)
Total Collective Allowance	(84,169)	(13,500)
Total Individual and Collective Allowance	**-**	**84,169**

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

23.1 Loans and receivables due from banks include:

(000) RSD

	31 December 2017	31 December 2016
RSD loans and receivables		
Per repo transactions	15,000,000	20,000,000
Loans for working capital	200,000	3,000,000
Overnight loans	-	1,000,000
Other receivables	68,549	14,580
Prepayments	18,809	22,199
	15,287,358	**24,036,779**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	4,348,062	8,231,797
Overnight loans	2,144,357	585,677
Other loans and receivables due from foreign banks	665,877	641,235
Foreign currency deposits placed with other banks	5,905,905	6,177,432
Prepayments	2,114	2,290
Other receivables	12,657	8,824
Loans to foreign banks (subsidiaries)	490,815	176,389
Secured foreign currency warranties	889,202	1,050,864
Impairment allowance	(202,558)	(309,874)
	14,256,431	**16,564,634**
Total	**29,543,789**	**40,601,413**

As at 31 December 2017, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 15,000,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 2.55% to 3.00%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 2.40% to 3.10% per annum. Short-term time deposits with foreign currency banks were deposited for a period of up to one year with an interest rate ranging from 0.10% to 0.25% per annum, from 0.30% to 1.25% for USD and 0.13% to 0.40% for CHF.

Interest rates on long-term revolving loans to foreign subsidiaries ranged from 2.478% to 2.559% representing 6M EURIBOR plus a fixed portion of 2.75%. Long-term loans to dependent banks were placed at the rate of 4.092% and 1M EURIBOR plus fixed portion 4.46%

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	**2017**	**2016**
Balance at January 1	309,874	399,760
Current year impairment allowance:		
Charge for the year (note 14)	-	-
Effects of the changes in foreign exchange rates (note 14)	(46,755)	15,577
Written off	-	(105,463)
Reversal (note 14)	(60,561)	-
Balance at December 31	**202,558**	**309,874**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

(000) RSD

	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	545,794	(15,523)	530,271	599,731	(77,830)	521,901
Working capital loans	36,079,514	(6,876,228)	29,203,286	43,540,645	(8,036,684)	35,503,961
Export loans	59,381	-	59,381	2,171,791	(2,039,330)	132,461
Investment loans	26,874,796	(2,257,470)	24,617,326	27,338,065	(3,676,973)	23,661,092
Purchased loans and receivables - factoring	-	-	-	298,788	(807)	297,981
Loans for payments of imported goods and services	2,109,314	(18,892)	2,090,422	2,306,016	(2,097,996)	208,020
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	416,502	-261,893	154,609	479,893	(297,408)	182,485
Other loans and receivables	37,994,559	(7,093,888)	30,900,671	38,179,610	(10,567,868)	27,611,742
Prepayments	138,848	(24,290)	114,558	223,015	(127,098)	95,917
Accruals	(139,210)	-	(139,210)	(190,394)	-	(190,394)
	104,079,498	**(16,548,184)**	**87,531,314**	**114,947,160**	**(26,921,994)**	**88,025,166**
Retail customers						
Transaction account overdrafts	3,795,909	(422,347)	3,373,562	3,922,335	(649,424)	3,272,911
Housing loans	37,546,956	(586,966)	36,959,990	39,297,529	(963,039)	38,334,490
Cash loans	24,712,127	(389,565)	24,322,562	19,954,272	(904,510)	19,049,762
Consumer loans	126,019	(2,712)	123,307	160,58	(42,266)	118,314
Other loans and receivables	2,014,181	(81,801)	1,932,380	2,113,275	(160,734)	1,952,541
Prepayments	218,284	(3,024)	215,260	207,135	(3,038)	204,097
Accruals	(561,008)	-	(561,008)	(545,872)	-	(545,872)
	67,852,468	**(1,486,415)**	**66,366,053**	**65,109,254**	**(2,723,011)**	**62,386,243**
Balnce as of December 31	**171,931,966**	**(18,034,599)**	**153,897,367**	**180,056,414**	**(29,645,005)**	**150,411,409**

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:

	31 December 2017	(000) RSD 31 December 2016
Individual impairment allowance		
Balance as at January 1	28,219,164	35,020,153
Current year impairment allowance:		
Charge for the year (note 14)	6,427,100	11,070,613
Reclassified from group to individual impairment allowance	194,318	(3,253,505)
Effects of the changes in foreign exchange rates (note 14)	(381,063)	104,278
Reversal (note 14)	(5,617,811)	(2,944,495)
Written off	(11,811,840)	(11,816,533)
Other (note 14)	2,014	38,653
Total individual impairment allowance	**17,031,882**	**28,219,164**
Group impairment allowance		
Balance as at January 1	1,425,841	1,263,854
Current year impairment allowance:		
Charge for the year	4,165,517	10,310,276
Reclassified from group to individual impairment allowance	(194,318)	3,253,505
Effects of the changes in foreign exchange rates(note 14)	(391,172)	348,933
Reversal (note 14)	(4,505,417)	(7,242,240)
Written off (note 14)	(277,229)	(7,095,673)
Other (note 14)	779,495	587,186
Total group impairment allowance	**1,002,717**	**1,425,841**
Balance as of December 31	**18,034,599**	**29,645,005**

Loans and receivables due from retail customers

During 2017, short-term and long-term loans to households in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 3.50% to 18.50% per annum.

Short-term loans to households in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.80% to 10.95% annually.

Long-term loans to households in foreign currency are approved for the period from thirteen to thirty-sixteen months with nominal interest rates ranging from 2.00% to 10.45% annually.

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.64% to 15.00% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.30% to 7.92% annually. Long-term loans in RSD were approved for a period from thirteen months to thirty months with an interest rate from 2.40% to 8.50%. on an annual basis. Long-term loans in foreign currency are approved for a period up to ninety months with an interest rate of EUR from 1.25% to 5.95% per annum.

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (CONTINUED)

Risks and Uncertainties

The Bank's management made a provision for potential credit losses based on all known and foreseeable risks at the date of preparation of the financial statements. The classification of credit portfolio receivables was made on the basis of the latest relevant available financial information, as well as on the expected effects of the restructuring process. If these effects do not result in the possibility of settling liabilities towards the Bank, the Bank's claims are mostly provided by mortgages on the immovable property of the debtor, as well as the pledge on movable property. In the event that these activities undertaken by the management of the Bank do not give the expected results, in the subsequent reporting periods it will be necessary to allocate additional provisions for possible losses based on the assessment of non-recoverability.

25. INVESTMENTS IN SUBSIDIARIES

	December 31, 2017	December 31, 2016
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Budva	2,366,273	2,366,273
Impairment allowance	(2,869,029)	(2,869,029)
Total	**2,611,859**	**2,611,859**

Effects of conducted appraisals of investments in subsidiaries

Permanent equities in subsidiaries - subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized at the expense of the Bank's expense.

Investments in the durable roles of subsidiary banks have been subject to impairment testing at the end of 2017, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment
has been significantly reduced).

Based on the conducted testing and the achieved movement of the balance sheet positions of the subsidiary banks in 2017, and taking into account the development plans of the banks, the Bank's conclusion is that no noticeable and clear indications of potential further impairment of these investments have been identified, but also a significant reduction in previously recognized impairment.

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

(000) RSD

	December 31, 2017	December 31, 2016
Intangible assets	340,660	361,442
Intangible assets in progress	119,603	1,065
Total	**460,263**	**362,507**

26.2 Movements on the account of intangible assets in 2017 and 2016 are presented below:

(000) RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2016	1,612,589	7,023	1,619,612
Additions	-	349,007	349,007
Transfers	354,965	(354.965)	-
Balance as of December 31, 2016	**1,967,554**	**1,065**	**1,968,619**
Balance as of January 1, 2017	1,967,554	1,065	1,968,619
Additions	-	240,937	240,937
Transfers	122,399	(122,399)	-
Balance as of December 31, 2017	**2,089,953**	**119,603**	**2,209,556**
Accumulated Amortization			
Balance as of January 1, 2016	1,402,782	-	1,402,782
Charge for the year (Note 16)	203,330	-	203,330
Balance as of December 31, 2016	**1,606,112**	**-**	**1,606,112**
Balance as of January 1, 2017	1,606,112	-	1,606,112
Charge for the year (Note 16)	143,181	-	143,181
Balance as of December 31, 2016	**1,749,293**	**-**	**1,749,293**
Net Book Value			
Balance as of December 31, 2016	**361,442**	**1,065**	**362,507**
Balance as of December 31, 2017	**340,660**	**119,603**	**460,263**

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

(000) RSD

	December 31, 2017	December 31, 2016
Property	4,950,836	5,221,254
Equipment	571,847	586,365
Investments in progress	132,565	48,839
Total	**5,655,248**	**5,856,458**

27.2 Movements on the account of property and equipment in 2017 and 2016 are presented below:

(000) RSD

	Property	Equipment	ıvestment in progress	Total
Cost				
Balance as of January 1, 2016	7,089,568	3,267,620	43,465	10,400,653
Additions	-	-	366,518	366,518
Transfers from assets acquired in lieu of debt collection	64,470	118,654	(183,124)	-
Transfers from investment in progress (Note 28.1)	-	-	(79,470)	(79,470)
Transfers from investment in progress	339,823	-	-	339,823
Transfors to assets held for sales	(77,669)	-	(98,550)	(176,219)
Disposals and retirement	(10,182)	(16,933)	-	(27,115)
Sales	-	(2,446)	-	(2,446)
Appraisal increase	295,623	-	-	295,623
Appraisal decrease	(643,585)	-	-	(643,585)
Balance as of December 31, 2016	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Balance as of January 1, 2017	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Additions	-	-	330,305	330,305
Transfers from PPE under contruction	57,924	192,884	(246,579)	4,229
Transfers to assets held for sales	(176,051)	-	-	(176,051)
Transfers from equipment	787	(787)	-	-
Disposals and retirement	(64,989)	(71,457)	-	(136,446)
Sales	-	(13,671)	-	(13,671)
Balance as of December 31, 2017	**6,875,719**	**3,473,864**	**132,565**	**10,482,148**
Accumulated Depreciation				
Balance as of January 1, 2016	1,696,384	2,564,697	-	4,261,081
Charge for the year (Note 16)	175,068	234,756	-	409,824
Transfers from investments in progress (Note 28.1)	68,698	-	-	68,698
Transfers to assets held for sale	(48,397)	-	-	(48,397)
Disposals and retirement	(8,570)	(16,667)	-	(25,237)
Sales	-	(2,256)	-	(2,256)
Revaluation (increase)	87,358	-	-	87,358
Revaluation (decrease)	(133,747)	-	-	(133,747)
Balance as of December 31, 2016	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Balance as of January 1, 2017	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Charge for the year (Note 16)	173,892	205,854		379,746
Transfers to assets held for sale	(25,486)	-	-	(25,486)
Disposals and retirement	(60,317)	(70,720)	-	(131,037)
Sales		(13,647)		(13,647)
Balance as of December 31, 2017	**1,924,883**	**2,902,017**	**-**	**4,826,900**
Net Book Value				
Balance as of December 31, 2016	**5,221,254**	**586,365**	**48,839**	**5,856,458**
Balance as of December 31, 2017	**4,950,836**	**571,847**	**132,565**	**5,655,248**

The Bank does not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, on December 31, 2017, the Bank for 34 construction objects of the present value of RSD 515,278 thousand still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers.

Based on the annual inventory, the amount of RSD 737 thousand was disposed of and disposed of from the records of permanently useless fixed assets of the present value.

In 2017, the Bank sold equipment of the total present value in the amount of RSD 24 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2017 and 2016 are presented below:

	(000) RSD Total
Cost	
Balance as of January 1, 2016	3,025,003
Transfer from investments in progress (Note 27.2)	79,470
Transfer to PPE (Note 27.2)	(339,823)
Sales	(46,045)
Appraisal (revaluation) - decrease	(269,621)
Balance as of December 31, 2016	**2,448,984**
Balance as of January 1, 2017	2,448,984
Sales	(117,034)
Appraisal (revaluation) - decrease (Note 17)	(79,477)
Balance as of December 31, 2017	**2,252,473**
Accumulated Depreciatin	
Balance as of January 1, 2016	280,977
Charge for the year (Note 16)	52,871
Transfer to PPE	(68,698)
Sales	(1,478)
Appraisal (revaluation) - decrease	(32,504)
Balance as of December 31, 2016	**231,168**
Balance as of January 1, 2017	231,168
Charge for the year (Note 16)	40,655
Sales	(4,438)
Appraisal (revaluation) - decrease (Note 17)	(3,520)
Balance as of December 31, 2017	**263,865**
Net Book Value	
Balance as of December 31, 2016	**2,217,816**
Balance as of December 31, 2017	**1,988,608**

As at 31 December 2017, the Bank has listed investment property in present value in the amount of RSD 1,988,608 thousand, which make the buildings lease.

In 2017, impairment in the amount of RSD 75,957 thousand is charged, based on the fair value appraisals of an authorized external appraisers (Note 17).

28. INVESTMENT PROPERTY(CONTINUED)

As of 31 December 2017, the net result on the basis of investment property is positive and amounts to RSD 27,867 thousand.

Property	Area in м²	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(23,507)	47,193	23,686
Niš, Vrtište nova d-zgrada	1,816	(4,251)	-	(4,251)
Niš, TPC Kalča	85	(806)	4,748	3,942
Beograd, Omladinskih brigada 9	15,218	(19,824)	16,902	(2,922)
Šabac, Majur, Obilazni put bb	1,263	(1,945)	-	(1,945)
Lovćenac, Maršala Tita bb	46,971	(3,401)	7,273	3,872
Negotin, Save Dragovića 20-22	658	(771)	-	(771)
Niš, Bulevar 12 februar bb	816	(366)	1,524	1,158
Beograd, Radnička 22	7,190	(18,279)	17,723	(556)
Novi Sad, Vardarska 1/B,	291	(1,930)	3,520	1,590
Novi Sad, Bulevar Oslobođenja 88, 3 lokala	367	(2,010)	1,877	(133)
Kotor, Stari Grad, Palata beskuća, poslovni prostor, zgr. Br. 1	207	(1,578)	5,553	3,975
Beograd, Luke Vojvodića 77a	80	(432)	654	222
		(79,100)	**106,967**	**27,867**

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

(000) RSD

	December 31, 2017	December 31, 2016
Non-current assets held for sale and assets from discontinued operations	241,148	183,170
	241,148	**183,170**

Non-current assets held for sale:

Property	Area in m²	(000) RSD Carrying Value
Jasika, business premises	75.87	559
Požarevac, M.Pijade 2, business premises	826.82	28,968
Požarevac, M.Pijade 2, business premises	880.86	23,969
Vrbas, M. Tita 49, business premises	145.56	3,130
Kotor, business premises 1 and 2	690.00	95,002
Jastrebac, resort building	687.00	20,443
Jastebac, country house	108.00	1,667
Jastrebac, generator storage	65.00	322
Beograd, Palmira Toljatija 5	637.00	67,088
Total		**241,148**

In 2017, one of the facilities in Belgrade, Palmira Toljatija 5, was reclassified from the fixed assets position, as a means of selling, which influenced the increase of these funds.

During 2017, three business premises were sold in Begorad, and on that basis, fixed assets intended for selling the present value of 81,836 thousand dinars were made.

During 2017, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 10,751 thousand.
The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

30. OTHER ASSETS

Other assets comprise:

	December 31, 2017	(000) RSD December 31, 2016
In RSD		
Fee receivables per other assets	101,231	93,096
Inventories	146,424	131,309
Assets acquired in lieu of debt collection	2,299,238	3,002,894
Prepaid expenses	120,433	100,407
Equity investments	1,571,785	1,380,551
Other RSD receivables	3,001,673	2,938,357
	7,240,784	**7,646,614**
Impairment allowance of:		
Fee receivables per other assets	(44,251)	(44,608)
Assets acquired in lieu of debt collection	(860,172)	(1,018,719)
Equity investments	(504,732)	(503,761)
Other RSD receivables	(935,438)	(866,263)
	(2,344,593)	**(2,433,351)**
In foreign currencies		
Fee receivables per other assets	2,104	77
Other receivables from operations	729,569	384,464
Receivables in settlement	1,354,121	868,544
Other foreign currency receivables	21,045	2,146
	2,106,839	**1,255,231**
Impairment allowance of		
Other receivables from operations	(126,602)	(134,418)
Receivables in settlement	(77,922)	(81,221)
	(204,524)	**(215,639)**
Total	**6,798,506**	**6,252,855**

30. OTHER ASSETS (CONTINUED)

Throughout regular yearly inventory count, inventories worth 22 thousand RSD have been written off.

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

	December 31,2017	(000) RSD December 31,2016
Individual impairment allowance		
Balance as of January 1, 2016	204,558	(104,131)
Impairment allowance for the year:		
Charge for the year (Note 14)	33,502	374,702
Foreign currency exchange effects (Note 14)	(1,056)	394
Reversal (Note 14)	(7,547)	(3,925)
Written off	(16,865)	(62,482)
Total individual impairment allowance	**212,592**	**204,558**
Group impairment allowance		
Balance as of January 1, 2016	2,328,130	1,912,656
Impairment allowance for the year:		
Charge for the year (Note 14)	451,058	740,534
Foreign currency exchange effects (Note 14)	(9,670)	2,746
Reversal (Note 14)	(121,869)	(181,303)
Written off (Note 14)	(2,233)	(52,356)
Other (Note 14)	(401,145)	(94,147)
Total group impairment allowance	**2,244,271**	**2,328,130**
Balance as of December 31	**2,456,863**	**2,532,688**
Inventory impairment allowance (not exposed to credit risk)	92,254	116,302
Balance as of December 31	**2,549,117**	**2,648,990**

30. OTHER ASSETS (CONTINUED)

a) Equity investments

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

Equity investments	2017	2016
Equity investments in banks and other financial organizations	80,270	82,536
Equity investments in companies and other legal entities	464,902	468,277
Equity investments in non-resident entities abroad	1,026,613	829,738
	1,571,785	**1,380,551**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(81,863)
Equity investments in companies and other legal entities	(424,462)	(421,898)
	(504,732)	**(503,761)**

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 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. October 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 60,276 thousand and Politika a.d., Beograd in the amount of RSD 31,073 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 845,688 thousand and MASTER Card in the amount of RSD 180,925 thousand.

Impairment allowance of equity investments totaling RSD 504,732 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 banka a.d., Moskva in the amount of RSD 78,387 thousand RTV Politika d.o.o., Beograd - RSD 37,633 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 947,270 thousand, operating receivables of RSD 286,986 thousand, receivables which relate to material values acquired in lieu of debt collection of RSD 2,299,238 thousand (written off in the amount of RSD 860,172 thousand), advances paid for working capital assets of RSD 26,557 thousand, rental receivables of RSD 434,444 thousand and interest receivables per other assets of RSD 204,787 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 1,354,121 thousand for the most part pertain to receivables for spot transactions of RSD 1,251,557 thousand.

30. OTHER ASSETS (CONTINUED)

c) Foreclosed assets

Foreclosed assets totaling to RSD 2,299,238 thousand gross, less recorded impairment allowance of RSD 860,172 thousand, with the net carrying value of RSD 1,439,066 thousand relate to:

I Properties foreclosed before December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Property	Area in m^2	Value	Acquisition Date
I.C.P Kruševac, commercial building	12,836	45,475	08.06.2012.
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,648	24.07.2012.
Majur, Tabanovačka, category 4 arable field	14,452	1,605	10.08.2012.
Mladenovac, category 3 arable field	16,633	263	25,06.2012.
Obrenovac, Mislođin, arable field	10,017	1,035	11.07.2012.
Gnjilica, category 7 arable field	2,638	63	15.04.2008.
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	100,608	21.01.2009.
Novi Pazar, Kej skopskih žrtava 44, premises	82.95	2,738	27.09.2006.
Tivat, Mrčevac – residential building, 118uxiliary facilities in construction and garage	277	5,015	23.12.2009.
Tutin, Buče category 4 forest	8,292	325	12.10.2010.
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	315	27.09.2012.
Budva, category 4 forest	974	3,950	27.05.2011.
Prijevor, category 4 forest	1,995	4,647	27.05.2011.
Residential building Galathea	925.35	184,285	21.11.2011.
Prijepolje, Karoševina, saw mill	450	870	08.11.2013.
Ćuprija, Alekse Šantića 2/24, apartment	72.40	841	15.01.2013.
Niš, Ivana Milutinovića 30, business premises	438.39	5,107	23.04.2013.
Niš, Triglavska 3/1, apartment	79.80	3,284	04.06.2013.
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	23,515	09.07.2013.
Mladenovac, field, category 3 forest	1,142	486	18.07.2013.
Niš, Bulevar 12. Februara, warehouse- ancillary facility	2,062	40,573	30.07.2013.
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	22,811	01.10.2013.
Total I		**451,459**	

II Properties foreclosed after December 30, 2013 – amounts NOT included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Property	Area in m^2	Value	Acquisition Date
Kotor, business premises, property 1	106	21,393	22.12.2016.
Kotor, business premises, property 2	345	69,626	22.12.2016.
Kotor, business premises, property 3	345	69,626	22.12.2016.
Total II		**160,645**	

30. OTHER ASSETS (CONTINUED)

III Properties foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Property	Area in m^2	Value	Acquisition Date
Valjevo, village Radjevo, warehouse	394	439	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,450	563	16.05.2014.
Bor, Nikole Pašića 21, production plant and warehouse	3,823	54,292	08.05.2014.
Subotica, Magnetna 17, production plant, warehouse	2,492	46,278	18.07.2014.
Reževići, Montenegro, karst, category 5 forest	1,363.20	19,847	22.07.2014.
Reževići, Montenegro, category 5 forest	5,638.54	81,042	22.07.2014.
Mokra Gora, house, fields	58,400	4,134	31.01.2014.
Kopaonik, house and yard	337	4,083	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,081	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,674	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,718	31.01.2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,612	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,143	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	17,044	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	20,190	31.01.2014.
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	5,736	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	4,923	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	4,801	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	24,857	31.01.2014.
Zrenjanin, Novosadski put 4, building with land	9,144	34,856	14.08.2014.
Niš, Ivana Gorana Kovačića 31, residential building	434.58	4,523	17.04.2013.
Mladenovac, category 3 and 4 arable fields	7,768	250	03.10.2014.
Bela Crkva, forest	4,187	69	03.10.2014.
Mladenovac, arable fields and orchards	25,136	529	03.10.2014.
Niš, Čajnička bb, residential building	825.74	10,756	14.03.2013.
Niš,Sjenička 1, business premises and warehouse	1,452.73	13,244	14.03.2013.
Valjevo, Vojvode Mišića 170, residential building	106	1,713	25.09.2014.
Zemun, Cara Dušana 130, production plants	6,876	100,578	16.06.2014.
Valjevo, Radnička 6, flat	69	2,784	28.05.2015.
Niš, Šumadijska 1, business premises	504.60	1,811	04.12.2014.
Mionica, Andre Savčić 8, family house	107	1,741	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	280	11.06.2012.
Sokobanja, production plant with land	5,042	23,677	31.07.2012.
Sokobanja, portirnica with land	2,005	680	31.07.2012.
Sokobanja, building with land	4,194	8,969	31.07.2012.
Sokobanja, arable land and category 4 orchard	417,908	5,630	31.07.2012.
Beograd, B.Pivljanina 83, residential building	278.52	60,764	23.08.2012.
Prokuplje, category 3 arable field	12,347	565	28.08.2015.
Divčibare, category 5 field	8,012	4,193	02.12.2015.
Lebane, Branka Radičevića 17, residential-business building	768.42	5,713	27.08.2015.
Loznica, Lipnica, residential-business building with land	146	2,072	15.10.2015.
Vrh polje, zgrada ugostiteljstva with land	1,334	2,368	16.05.2013.
Kruševac, St.selo, concrete base with land	100,560	136,062	11.03.2016.
Zrenjanin, Bagijaš, category 2 pasture	230	49	22.12.2015.
Svilajnac, Kodublje, commercial building, plant and land	10,462	32,672	26.02.2016.
Aleksandrovo, Merošina, building with land	8,866.39	14,663	23.12.2015.
Čačak, Suvo polje, buildings 1 and 2 with land	1,225	11,996	05.05.2016.
Bojnik, Miroševce, arable fields, pasture and a vineyard	29,550	228	31.03.2016.
Valjevo, Bobove, category 6 and 7 arable fields	20,599	439	19.05.2016.
Total III		**791,228**	

IV Equipment foreclosed in periods prior December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	8,794	08.06.2012.
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	11,689	31.07.2012.
Paraćin, coffee roasting line	3,485	31.12.2012.
Vranić, equipment, production line	4,684	09.07.2013.
Total IV	**28,652**	

30. OTHER ASSETS (CONTINUED)

V Equipment foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	4,365	03.06.2015.
Equipment, supply of secondary raw materials	1,652	18.07.2014.
Movables, installation materials	729	13.05.2014.
Other	336	
Total V	**7,082**	
TOTAL (Net carrying value) I + II+ III+ IV+V	**1,439,066**	

During 2017, the Bank sold one property, in Resavska 31, net carrying value shown in the material values acquired in lieu debt collection of RSD 370,417 thousand. The selling price of the mentioned facility amounts to RSD 399,651 thousand and sales revenue amounted to RSD 29,234 thousand.

During 2017, two other facilities and equipment were sold and realized sales revenue amounting to RSD 313 thousand.

The effect of the impairment of assets acquired through collecting receivables in 2017 is shown in the table:

(000) RSD

Effects of property impairment	166,226
Effects of equipment impairment	3,448
TOTAL	**169,674**

Total negative effect amounted to RSD 169,674 thousand and it was recognized as expense of a period as follows (note 14):

- For properties RSD 141,792 thousand based on lower appraisal market value and RSD 24,434 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;

- For equipment RSD 3,448 thousand according to internal act.

30. OTHER ASSETS (CONTINUED)

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

G1.1 Appraisal value of foreclosed properties

In 000 RSD

Property	Area in м²	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net carrying value in RSD	Difference in value
Beograd, Mihaila Avramovića 14a, residential building	925.35	244,494	1,544	184,285	(60,209)
Kruševac, St.selo, concrete base with land	100,560	141,143	1,403	136,062	(5,081)
Čačak, Hotel „Prezident“, Bulevar oslobođenja BB	2,278.92	104,704	849	100,608	(4,096)
Zemun, Cara Dušana 130, production complex	6,876	104,334	977	100,578	(3,756)
Reževići, Crna Gora, category 5 forest	5,638.54	82,528	1,087	81,042	(1,486)
Kotor, business premises, buliding no. 1 PD 4	345	81,014	584	69,626	(11,388)
Kotor, business premises, buliding no. 1 PD 6	345	81,014	584	69,626	(11,388)
Beograd, Baje Pivljanina 83, commercial building	278.52	65,233	512	60,764	(4,469)
Bor, Nikole Pašića 21, buildings, a warehouse and a production plant	3,823	61,916	458	54,292	(7,624)
Subotica, Magnetna 17, production plant and a warehouse	2,492	48,007	811	46,278	(1,729)
Kruševac, Koševi bb, production-commercial building	12,836	47,174	484	45,475	(1,699)
Niš, Булевар 12. Фебруар bb, Auxiliary building-warehouse	2,062	42,088	510	40,573	(1,515)
Sokobanja, Sinex, production plant, land and an orchard	429,419	49,653	515	38,957	(10,696)
Zrenjanin, Bagljaš, Novosadski put 4, buildings, a pump and land	9,374	36,207	441	34,904	(1,303)
Svilajnac, Kodublje, commercial building, plant and land	10,462	33,893	475	32,672	(1,221)
Novi Sad, Polgar Andraša 40/a, business premises 10	408	25,720	209	24,857	(863)
Vranić, Milijane Matić 2, business premises with land	10,584.24	25,790	198	23,515	(2,275)
Kula, Železnička bb, business premises with land	7,959	23,663	319	22,811	(852)
Kotor, business premises, buliding no. 1 PD 2	106	24,892	179	21,393	(3,499)
Novi Sad, Bulevar oslobođenja 88, busines premises 23	253	31,485	170	20,189	(11,296)
Reževići, Crna Gora, a karst and a forest	1,363.20	19,954	168	19,846	(108)
Novi Sad, Bulevar oslobođenja 88, busines premises 22	226	28,152	143	17,044	(11,108)
Aleksandrovo, Merošina, management building with land	8,527	15,211	275	14,663	(548)
Niš, Sjenička 1, commercial building, warehouses and a workshop	1,452.73	13,738	191	13,244	(494)
Čačak, Beljina, Suvo polje, buildings with land	1,225	12,444	161	11,996	(448)
Niš, Čajnička, residential building	825.74	11,158	176	10,756	(402)
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	9,013	48	5,736	(3,277)
Lebane, Branka Radičevića 17, residential commercial building	768.42	5,927	65	5,714	(213)
Niš, Ivana Milutinovića 30, business premises	438.39	5,298	56	5,107	(191)
Novi Sad, Polgar Andraša 40/a, business premises 8	81	5,106	44	4,922	(184)
Novi Sad, Polgar Andraša 40/a, business premises 9	79	4,980	13	4,801	(179)
Novi Sad, Bulevar oslobođenja 30a, 5 business premises	181	19,486	161	19,227	(259)
Prijevor, category 4 forest	1,995	4,732	40	4,647	(85)
Niš, Ivana Gorana Kovačića 31, flat	434.58	4,692	46	4,523	(169)
Divčibare, category 5 field	8,012	4,270	96	4,193	(77)
Mokra Gora, fields and a house	58,400	4,289	57	4,134	(155)
Kopaonik, house with land	337	4,235	41	4,083	(152)
Будва, Брдо Спас, category 4 forest	974	4,022	34	3,950	(72)
Нови Пазар, Ејупа Куртагића 13, house	139.90	3,784	34	3,648	(136)
Other (30 properties)	-	34,115	-	32,591	(1,524)
Total		**1,569,558**		**1,403,332**	**(166,226)**

30. OTHER ASSETS (CONTINUED)

G1.2 Appraisal value of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in RSD	In 000 RSD Difference in value
Movables	23,314	21,262	(2,052)
Equipment, inventory and secondary raw materials	6,911	6,303	(608)
Other	8,957	8,169	(788)
Total	**39,182**	**35,734**	**(3,448)**

For three movable objects 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.

31. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	December 31, 2017	In 000 RSD December 31, 2016
Liabilities based on changes in fair value-SWAP	7,845	-
Total	**7,845**	**-**

32. 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:

	December 31, 2017	(000) RSD December 31, 2016
Demand deposits	2,171,044	1,676,878
Term deposits	231,664	1,191,809
Borrowings	2,132,509	4,992,338
Expenses deferred at the effective interest rate (deductible item)	(19,733)	(43,055)
Other	17,021	16,992
Balance as at December 31	**4,532,505**	**7,834,962**

During 2017 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.

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

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

(000) RSD

	December 31, 2017	December 31, 2016
GGF	-	406,224
EBRD	2,132,509	4,586,114
Balance at December 31	**2,132,509**	**4,992,338**

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 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.

During 2017, the Bank has repayed a line of credit due to EBRD of EUR 19,143 thousand which resulted in a decrease in the balance at the end of the year compared to 2016 in the amount of RSD 2,859,829 thousand.

Also, during 2016 with new line of credit arrangements with GGF, the Bank has managed to prematurely repay principal of EUR 3,209 thousand, which reduced the amount of the obligation to zero.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

(000) RSD

	December 31, 2017	December 31, 2016
Corporate customers		
Demand deposits	55,021,237	77,425,520
Overnight and other deposits	7,060,604	9,343,359
Borrowings	5,279,478	8,034,834
Earmarked deposits	1,567,511	888,281
Deposits for loans approved	610,238	651,072
Interest payable, accrued interest liabilities and other financial liabilities	434,975	518,268
Retail customers		
Demand deposits	23,963,864	22,047,442
Savings deposits	191,350,273	196,260,703
Earmarked deposits	4,131,493	4,021,364
Deposits for loans approved	2,073,679	1,992,364
Interest payable, accrued interest liabilities and other financial liabilities	868,612	1,326,108
Other deposits	109,676	112,045
Balance at December 31	**292,471,640**	**322,621,360**

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 2017, 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 2017 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 1.00 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 0.0% and 0.40% annually for EUR deposits and from 0.00% to 1.00% for USD.
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 0.50 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70% for EUR and from 1.30% to 1.40% annually for USD.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (CONTINUED)

Retail Customer Deposits

Demand RSD and foreign currency savings deposits of retail customers during 2017 were interest-free.

In 2017 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 1.50% to 3.50 % annually and those in foreign currencies at rates from 0.05% to 0.35% annually for EUR and from 0.10% to 1.00% annually for other currencies.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 3.75% to 4.00% annually and those in foreign currencies at rates from 0.65% to 0.80% annually for EUR and from 1.00% to 1.50% 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.

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

	December 31, 2017	(000) RSD December 31, 2016
Long term borrowings		
LEDIB 1 and 2 (Kingdom of Denmark)	3,982	18,660
Republic of Italy Government	249,272	374,774
European Investment Bank (EIB)	3,635,120	5,426,479
European Agency for Reconstruction (EAR)	98,674	194,465
Short term borrowings		
KfW	1,292,430	2,020,456
Balance at December 31	**5,279,478**	**8,034,834**

The above presented long-term and short-term borrowings mature in the period from 2018 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 executed Kreditanstalt fur Wiederaufbau (German Development Bank, abbreviated: KfW), the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained.

34. SUBORDINATED LIABILITIES

	December 31, 2017	(000) RSD December 31, 2016
Foreign currency subordinated liabilities	-	6,173,615
Other liabilities (accrued interest liabilities)	-	13,212
Expenses deferred at the effective interest rate (deductible item)	-	(8,437)
Balance at December 31	**-**	**6,178,390**

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). In its maturity, in December 2017, the Bank returned a subordinated loan as a whole - EUR 50,000 thousand.

35. PROVISIONS

Provisions relate to:

	December 31, 2017	(000) RSD December 31, 2016
Provisions for off-balance sheet items (Note 14)	124,392	430,941
Provisions for litigations (Note 38.4)	791,982	913,837
Provisions for employee benefits in accordance with IAS 19	451,677	442,516
Balance at December 31	**1,368,051**	**1,787,294**

Movements on the accounts of provisions are provided below:

In 000 RSD

	2017.				2016.			
	Provisions for Off- Balance Sheet Items (Note 14)	Provisions for Litigations (Note 38.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off- Balance Sheet Items (Note 14)	Provisions for Litigations (Note 38.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance, January 1	430,941	913,837	442,516	1,787,294	540,123	1,194,874	374,023	2,109,020
Charge for the year	276,066	173,187	33,809	483,062	522,126	368,501	64,866	955,493
Provisions against actuarial gains within equity	-	-	(24,648)	(24,648)	-	-	3,627	3,627
Release of provisions	(260,686)	(269,616)	-	(530,302)	-	(649,538)	-	(649,538)
Reversal of provisions	(321,929)	(25,426)	-	(347,355)	(631,308)	-	-	(631,308)
Balance at December 31	**124,392**	**791,982**	**451,677**	**1,368,051**	**430,941**	**913,837**	**442,516**	**1,787,294**

35. PROVISIONS (CONTINUED)

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs. Total provisions for 71 cases as of December 31, 2017 amounted to RSD 791,982 thousand.

Major items relate to provisions for arrangements with Intereksport ad, Beograd (in bankruptcy) – by letter of credit from 1991 in the amount of RSD 321,599 thousand (The total dinar counterpart refers to the part of the dispute against Interexport a.d. Belgrade – in bankruptcy, in the amount of USD 1,946 thousand for the base and USD 1,222 thousand for interest)

Other disputes mainly relate to claims for damages and labor disputes.

b) Provisions for retirement benefits:

Provisions for retirement benefits were formed on the basis of an independent actuary 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:

(000) RSD

	December 31, 2017	December 31, 2016
Discount rate	4.50%	5.00%
Salary growth rate within the Bank	4.00%	5.00%
Employee turnover	4.00%	4.00%

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.

36. OTHER LIABILITIES

Other liabilities include:

(000) RSD

	December 31, 2017	December 31, 2016
Accounts payable	385,364	268,295
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	59,886	303,250
Advances received	29,465	27,835
Accrued interest, fees and commissions	139,906	94,184
Accrued liabilities and other accruals	534,653	449,353
Liabilities in settlement	3,077,198	2,027,862
Dividend payment liabilities	2,507,577	2,490,770
Taxes and contributions payable	23,450	68,253
Other liabilities	785,943	417,767
Balance as at December 31	**7,543,442**	**6,147,569**

36. OTHER LIABILITIES (CONTINUED)

Liabilities in settlement totaling RSD 3,077,198 thousand mostly relate to liabilities for sale and purchase of foreign currencies in the foreign exchange market from banks in foreign currency in the amount of RSD 947,782 thousand, liabilities for sale and purchase of foreign currencies in RSD in the amount of RSD 354,900 thousand and foreign currency liabilities for spot transactions in the amount of RSD 1,251,952 thousand.

Liabilities from profit in the amount of RSD 2,507,577 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 73,275 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 9760 / 2c of April 27, 2017, a part of prior year's retained earnings was distributed for dividends on preferred shares in the amount of RSD 16,808 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

During 2017, the Bank did not carry out payments based on the distribution of profits for 2014, 2015 and 2016 because of the abovementioned limitation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

37. EQUITY

37.1 Equity is comprised of:

	December 31, 2017	(000) RSD December 31, 2016
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	11,061,535	18,791,828
Revaluation reserves	4,026,721	4,311,409
Retained earnings	19,881	349,698
Profit / (Loss) for the period	8,117,368	(8,063,183)
Balance as at December 31	**63,260,055**	**55,424,302**

The 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 Bank as well as to shares in profit distribution. As of December 31, 2017 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

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

	Share Count	(000)RSD
Share Type	**December 31, 2017**	**December 31, 2016**
_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 Bank's shareholders with ordinary (common stock) shares at December 31, 2017 was as follows:

Shareholder	Share Count	(000) RSD % 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	310,106	1.84
Komak-PAN d.o.o.	230,000	1.37
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
Stankom co. d.o.o., Beograd	117,535	0.70
Global Marco Capital Opportun.	103,565	0,62
UniCredit bank, a.d., Srbija (*custody* account)	95,000	0.56
Evropa osiguranje a.d, Beograd in bancruptcy	86,625	0.52
UniCredit bank, a.d., Srbija	78,642	0.47
Others (1,184 shareholders)	1,307,637	7.77
	16,817,956	**100.00**

37. EQUITY

37.1 Equity is comprised of (continued)

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

(000) RSD

Shareholder	Share Count	% 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**

Revaluation reserves totaling RSD 4,026,721 thousand (2016: RSD 4,311,409 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 948,759 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,000,763 thousand and actuarial gains of RSD 77,199 thousand.

The calculation for the payment of dividends on preference shares according to the Annual account for the year 2017 is based on the interest rate on savings deposits in RSD, deposited for a period of twelve months and amounts to RSD 13,222 thousand.

37.2. 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.

	2017.	2016.
Earnings minus preferred dividend (in RSD thousand)	8,104,145	(8,079,990)
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings (loss) per share (in RSD)	482	(480)

Basic earnings per share for the year 2017 amounts to RSD 482 or 48.19% of the nominal value of ordinary shares, while for 2016 adjusted loss per share was RSD 480 or 48.04% of the nominal value of the ordinary shares.

Decreased (diluted) earnings per share for the year 2017 amounts to RSD 482 or 48.19% of the nominal value of ordinary shares, while the 2016 loss amounted to RSD 480 or 48.04% of the nominal value of the ordinary shares.

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2017	(000) RSD December 31, 2016
Operations on behalf and for the account of third parties	4,226,654	4,418,079
Taken-over future liabilities	34,941,426	32,543,235
Derivatives intended for trading under the contract currency	592,364	-
Other off-balance sheet items	434,668,336	483,408,961
Total	**474,428,780**	**520,370,275**

38.1 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:

	December 31, 2017	(000) RSD December 31, 2016
Payment guarantees (Note 4.1.1.)	3,443,746	3,635,706
Performance guarantees (Note 4.1.1.)	4,349,151	6,728,901
Letters of credit	104,330	84,143
Balance as at December 31	**7,897,227**	**10,448,750**

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).

38.2 Commitments

The breakdown of commitments is provided below:

	December 31, 2017	(000) RSD December 31, 2016
Unused portion of approved payment and credit card loan facilities and overdrafts	10,116,077	9,355,501
Irrevocable commitments for undrawn loans	16,014,883	11,368,665
Other irrevocable commitments	913,239	547,811
Other commitments per contracted value of securities	-	822,508
Balance as at December 31	**27,044,199**	**22,094,485**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS(CONTINUED)

38.3 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 4,226,654 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,513,622 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 292,102 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 434,668,336 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients (RSD 78,012,427 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 112,059,304 thousand), repo investments in Treasury bills (RSD 15,000,000 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 19,703,398 thousand (in accordance with the Guidelines for the Implementation of IAS 39), and the amount of the accounting write-off of credit receivables pursuant to the NBS Decision on accounting write-off of balance sheet assets in the amount of RSD 10,594,744 thousand. As per its operating license to perform custody operations, the Bank maintains the financial instruments of its clients on the security accounts, recorded off balance. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the 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 that amount to RSD 128,441,388 thousand.

38.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal suits filed against the bank in 2017 in the total amount of RSD 791,982 thousand (2016.: RSD 913,837 thousand) (Note 35).As of December 31, 2017 contingent liabilities based on legal suits filed against the Bank amounted to RSD 1,733,824 thousand (for 572 cases).

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 37,417,637 thousand (for 586 cases with the largest individual claim amounts – cases with individual vale over RSD 10,000 thousand). The Bank's management anticipates favorable outcome of the most lawsuits.

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS(CONTINUED)

38.5 Commitments for operating lease liabilities are provided below:

(000) RSD

	December 31, 2017	December 31, 2016
Commitments due within one year	369,364	421,135
Commitments due in the period from 1 to 5 years	855,834	847,610
Commitments due in the period longer than 5 years	118,340	153,341
Total	**1,343,538**	**1,422,086**

38.6 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. 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 Bank's management believes that tax liabilities recognized in the financial statements are fairly presented. During 2017, the Bank had no tax controls.

39. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

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

39.1. Shareholders and subsidiaries

The largest portions of the 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 Bank has 3 subsidiaries: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.1. Shareholders and subsidiaries (continued)

Transactions with subsidiaries are shown in the following tables:

A. Balance as at December 31, 2017

RECEIVABLES

(000) RSD

Subsidiaries	Loand and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d.	6,589	902	-	7,491	-	7,491
Komercijalna banka a.d. Banja Luka	490,815	42	1,295	492,152	-	492,152
KomBank Invest a.d.	-	119	-	119	200	319
Total:	**497,404**	**1,063**	**1,295**	**499,762**	**200**	**499,962**

LIABILITIES

(000) RSD

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilites	Total
Komercijalna banka a.d. Budva	1,019,079	-	1,654	1,020,733
Komercijalna banka a.d. Banja Luka	229,884	-	-	229,884
KomBank Invest a.d. Beograd	49	-	-	49
Total:	**1,249,012**	**-**	**1,654**	**1,250,666**

INCOME AND EXPENSES

(000) RSD

Related parties	Interest Income	Fees and Commission Income	Iterest Expenses	Fee and Commission Expenses	Net Income / Expenses
Komrcijalna banka a.d. Budva	103	2,603	-	(632)	2,074
Komercijalna banka a.d. Banja Luka	3,940	3,871	-	(897)	6,914
KomBank Invest a.d. Beograd	-	1,521	(102)	-	1,419
Total:	**4,043**	**7,995**	**(102)**	**(1,529)**	**10,407**

Komercijalna banka ad, Belgrade, realized net foreign exchange losses in the amount of RSD 54,899 thousand (2016: net foreign exchange losses of RSD 20,944 thousand) from related parties transactions.

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.1. Shareholders and subsidiaries (continued)

B. Balance as at December 31, 2016

RECEIVABLES (000) RSD

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	6,786	937	-	7,723	-	7,723
Komercijalna banka a.d., Banja Luka	176,389	42	1,580	178,011	370,417	548,428
KomBank INVEST a.d., Beograd	-	163	-	163	200	363
Total:	**183,175**	**1,142**	**1,580**	**185,897**	**370,617**	**556,514**

LIABILITIES (000) RSD

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	438,612	-	1,724	440,336
Komercijalna banka a.d., Banja Luka	139,615	-	-	139,615
KomBank INVEST a.d., Beograd	145,354	1	2	145,357
Total:	**723,581**	**1**	**1,726**	**725,308**

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
Komercijalna banka a.d., Budva	96	4,213	-	(2,056)	2,253
Komercijalna banka a.d., Banja Luka	5,109	1,823	-	(781)	6,151
KomBank INVEST a.d., Beograd	-	1,407	(4)	-	1,403
Total:	**5,205**	**7,443**	**(4)**	**(2,837)**	**9,807**

Komercijalna banka a.d., Beograd realized net foreign exchange losses in the amount of RSD 20,944 thousand (2015: net foreign exchange losses of RSD 18,622 thousand) from related party transactions.

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.2. Other related parties

Loans and receivables from related parties

(000) RSD

Loand and Receivables	2017 Balance	2017 Off-Balance	2017 Total	2016 Balance	2016 Off-Balance	2016 Total
Lasta d.o.o. Sombor	-	-	-	347	-	347
Advokat Ristić Saša, Kruševac	-	-	-	1	-	1
MEPLAST d.o.o. Kruševac	-	-	-	1	-	1
Menta d.o.o. Niš	-	-	-	1	6,000	6,001
NOVA PEKARA d.o.o. Užice	-	-	-	1	-	1
Zlatiborski Katun Beograd	-	-	-	1	-	1
Cedens company	29	63	92	-	-	-
Individuals	128,509	13,334	141,843	452,323	66,722	519,045
Total	**128,538**	**13,397**	**141,935**	**452,675**	**72,722**	**525,397**

Liabilities	2017 Deposits	2017 Borrowings	2017 Total	2016 Deposits	2016 Borrowings	2016 Total
Lasta d.o.o. Sombor	-	-	-	2,600	-	2.600
VIŠ Trade d.o.o. Vršac	-	-	-	13	-	13
Advokat Ristić Saša, Kruševac	-	-	-	2	-	2
MEPLAST d.o.o. Kruševac	-	-	-	733	-	733
MENTA d.o.o. Niš	-	-	-	1,237	-	1,237
Anfibija	189	-	189	-	-	-
NOVA PEKARA d.o.o. Užice	-	-	-	801	-	801
Vladan Perišić SP Elektron, Zrenjanin	-	-	-	21	-	21
Goran Damnjanović, MARVIN+AZAMIT KRUŠEVAC	-	-	-	7	-	7
MM Energo 2010 d.o.o. Kruševac	-	-	-	800	-	800
ZLATIBORSKI KATUN BEOGRAD	-	-	-	16	-	16
EBRD (Note 32)	-	2,145,943	2,145,943	-	4,586,114	4,586,114
International Finance Corporation (Note 32, 34)	-	-	-	-	6,173,615	6,173,615
Reprezent doo	12	-	12	-	-	-
Bolero ZR	8	-	8	-	-	-
Cedens company	2,364	-	2,364	-	-	-
Individuals	94,898	-	94,898	491,541	-	491,541
Total	**97,471**	**2,145,943**	**2,243,414**	**497,771**	**10,759,729**	**11,257,500**

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.2. Other related parties (continued)

(000) RSD

	2017.		
	Interest	Fees	Total
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija	-	8	8
Individuals	6,471	1,386	7,857
Total Income	**6,481**	**1,556**	**8,037**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Individuals	282	512	794
Total Expenses	**384,756**	**5,644**	**390,400**
Net Expenses	**(378,275)**	**(4,088)**	**(382,363)**

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.2. Other related parties (continued)

(000) RSD

	2016		
	Interest	Fees	Total
Income			
ABD COMPANY doo, Belgrade - in liquidation	-	2	2
Lasta doo, Sombor	61	188	249
Vis trade doo, Vrsac	14	10	24
Advokat Ristić Saša Krusevac	-	6	6
MEPLAST doo, Krusevac	2	55	57
MENTA doo, Niš	-	333	333
Nova pekara d.o.o., Užice	-	73	73
Goran Damjanovic MARVIN + AZAMIT, Kruševac	-	25	25
MM 2010 Energo Ltd., Užice	-	28	28
Vladan Perišić SR Elektron, Zrenjanin	-	6	6
ZLATIBORSKI KATUN BEOGRAD	-	56	56
Individuals	27,636	9,116	36,752
Total income	**27,713**	**9,898**	**37,611**
Expenses			
Lasta doo, Sombor	2	-	2
EBRD	134,645	914	135,559
International Finance Corporation	374,220	35,354	409,574
MEPLAST doo, Krusevac	1	-	1
MENTA d.o.o., Niš	1	-	1
Nova pekara d.o.o., Užice	1	-	1
MM 2010 Energo Ltd., Užice	1	-	1
Individuals	5,701	6,184	11,885
Total expenses	**514,572**	**42,452**	**557,024**
Net Expenses	**(486,859)**	**(32,554)**	**(519,413)**

39. RELATED PARTY DISCLOSURES (CONTINUED)

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

		(000) RSD
	December 31, 2017	**December 31, 2016**
Gross remunerations		
Executive Board	84,279	156,079
Net remunerations		
Executive Board	72,177	136,966
Gross remunerations		
Board of Directors and Audit Committee	37,415	39,414
Net remunerations		
Board of Directors and Audit Committee	22,963	24,223

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDEND

Based on the analysis of the regular annual census conducted on December 31, 2017, the Bank has non-compliant statements of open items for 24 clients with the stated reason for the dispute and 16 returned unsigned copies.

Non-compliant statements for 16 clients relate to clients who challenge the amount of receivables for given advances, claims based on issued invoices, claims on the basis of a rent in the total amount of RSD 9,799 thousand.
For 4 clients, the non-compliant amounts relate to off-balance sheet items of irrevocable liabilities for unsecured loans, denial of the amounts shown in the letter of intent, denial of balance on individual guarantee batches as of December 31, in the total amount of RSD 9,035 thousand.

4 clients disputed amounts: receivables from domestic and foreign payment fees, the amount of mature annuity, the method of calculating default interest in the total amount of RSD 836 thousand.

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

The Bank is in a continuous process of reconciling of the disputed items.

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDEND (CONTINUED)

Unrealized dividends

Unrealized payment dividends in 2017 are amounts (Note 36):

- Unpaid liabilities on the basis of dividends from the previous period in the amount of RSD 4,251 thousand,
- According to the 2014 decision, RSD 1,934,065 thousand for preferential shares and 28,686 thousand dinars for priority.
- Potential liabilities for payment of priority dividends based on the calculation for 2015 amount to RSD 23,530 thousand
- Potential liabilities for payment of priority dividends based on the calculation for 2016 in the amount of RSD 16,808 thousand

The potential liabilities for payment of the priority dividends based on the calculation for 2017 amount to RSD 13,222 thousand.

41. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the balance sheet date that would be necessary to be disclosed in the financial statements.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market meeting applied for the reconciliation of balance sheet items in RSD on December 31, 2017 and 2016 for certain major currencies are:

	December 31, 2017	December 31, 2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473

In Belgrade, March 15, 2018

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

Miroslav Perić
Member of the Executive Board

Slađana Jelić
Deputy Chief Executive Officer

KOMERCIJALNA BANKA A.D., BEOGRAD

Financial Statements
Year Ended December 31, 2017
and Independent Auditors' Report

CONTENTS

Building a better
working world

Ernst & Young d.o.o. Beograd
Španskih boraca 3
11070 Beograd, Srbija

Tel: +381 11 2095 800
Fax: +381 11 2095 891
ey.com/rs

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

We have audited the accompanying separate financial statements of Komercijalna banka a.d. Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 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

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. 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 separate 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 separate 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 separate financial statements of the Bank for the year ended 31 December 2017.

Belgrade, 15 March 2018

Stephen Fish
Ernst & Young d.o.o. Beograd

Preduzeće za reviziju Ernst & Young d.o.o. Beograd

Jelena Čvorović

Jelena Čvorović
Authorised Auditor

INCOME STATEMENT
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
Interest income	8	14,052,436	16,689,075
Interest expenses	8	(1,606,239)	(3,226,341)
Net interest income		**12,446,197**	**13,462,734**
Fee and commission income	9	6,700,216	6,252,370
Fee and commission expenses	9	(1,617,990)	(1,435,056)
Net fee and commission income		**5,082,226**	**4,817,314**
Net gains on the financial assets held for trading	10	103,798	70,478
Net gains/ (losses) on the financial assets available for sale	11	44,323	69,062
Net foreign exchange gains / (losses) and negative currency clause effects	12	(56,358)	(9,282)
Net gains / (losses) on investments in associates and joint ventures	13	306	5,143
Other operating income	13	937,777	573,235
Net income from reduction in impairment of financial assets and credit risk-weighted off-balance sheet items	14	17,883	-
Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	14	-	(14,907,539)
Total operating income		**18,576,152**	**4,081,145**
Staff costs	15	(4,520,197)	(4,498,212)
Depreciation and amortization charge	16	(563,582)	(666,025)
Other expenses	17	(6,305,123)	(7,294,544)
Profit / (Loss) before taxes		**7,187,250**	**(8,377,636)**
Gains from deferred taxes	18	1,335,828	314,453
Losses on deferred taxes	18	(405,710)	-
Profit / (Loss) for the year		**8,117,368**	**(8,063,183)**
Earnings per share			
Basic earnings per share		482	(480)
Diluted earnings per share		482	(480)

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 15 March 2018.

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Miroslav Perić
Member of the Executive Board

Slađana Jelić
Deputy Chief Executive Officer

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
Profit / (Loss) for the year		**8,117,368**	**(8,063,183)**
Other comprehensive income			
Increase/(decrease) in revaluation reserves arising from intangible investmentss and fixed assets	18.6.	-	58,580
Actuarial gains / (losses)	35; 18.6.	24,648	(3,626)
Net increase from the fair value adjustment of equity investments and securities available for sale	18.6.	1,823	626,803
Unrealized losses on securities available for sale	18.6.	(241,847)	-
Tax gains pertaining to other comprehensive income for the period	18.6.	36,277	544
Tax losses pertaining to other comprehensive income of the period	18.6.	(85,708)	(97,093)
Other comprehensive income for the year, net of taxes		**(264,807)**	**585,208**
Total comprehensive income for the year		**7,852,561**	**(7,477,975)**

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 15 March 2018.

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

Miroslav Perić	Slađana Jelić
Member of the Executive Board	Deputy Chief Executive Officer

BALANCE SHEET
As of December 31, 2017
(Thousands of RSD)

	Note	31.12.2017	31.12.2016
ASSETS			
Cash and cash funds held with the central bank	19	49,840,887	55,153,209
Financial assets at fair value through profit and loss, held for trading	20	5,269,709	242,920
Financial assets available for sale	21	112,019,058	136,123,853
Loans and receivables due from banks and other financial institutions	23	29,543,789	40,601,413
Loans and receivables due from customers	24	153,897,367	150,411,409
Investments in subsidiaries	25	2,611,859	2,611,859
Intangible assets	26	460,263	362,507
Property, plant and equipment	27	5,655,248	5,856,458
Investment property	28	1,988,608	2,217,816
Deffered tax assets	18	857,096	-
Non-current assets held for sale and assets from discontinued operations	29	241,148	183,170
Other assets	30	6,798,506	6,252,855
Total assets		**369,183,538**	**400,017,469**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities at fair value through profit and loss for trading	31	7,845	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	32	4,532,505	7,834,962
Deposits and other liabilities due to customers	33	292,471,640	322,621,360
Subordinated liabilities	34	-	6,178,390
Provisions	35	1,368,051	1,787,294
Deferred tax liabilities	18	-	23,592
Other liabilities	36	7,543,442	6,147,569
Total liabilities		**305,923,483**	**344,593,167**
Equity	37		
Issued capital and share premium		40,034,550	40,034,550
Profit		8,137,249	349,698
Loss		-	(8,063,183)
Reserves		15,088,256	23,103,237
Total equity attributable to the owners of the Bank		**63,260,055**	**55,424,302**
Total liabilities and equity		**369,183,538**	**400,017,469**

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 15 March 2018.

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

Miroslav Perić
Member of the Executive Board

БАНКА АД БЕОГРАД КОМЕРЦИЈАЛНА

Slađana Jelić
Deputy Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2017
(Thousands of RSD)

	Issued Capital (Note 37)	Share Premium (Note 37)	Revaluation Reserves (Note 37)	Reserves from Profit and Other Reserves (Note 37)	Retained Earnings/ Accumulated Losses (Note 37)	Total (Note 37)
Balance at January 1, 2017	17,191,466	22,843,084	4,311,409	18,791,828	(7,713,485)	55,424,302
Profit for the year	-	-	-	-	8,117,368	8,117,368
Other comprehensive income for the year, net of income tax						
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	1,823	-	-	1,823
Unrealized losses on securities available for sale			(241,847)			(241,847)
Actuarial gains/(losses)	-	-	24,648	-	-	24,648
Tax effects on other comprehensive income	-	-	(49,431)	-	-	(49,431)
Other comprehensive income for the year, net of tax	-	-	(264,807)	-	-	(264,807)
Total comprehensive income for the year	-	-	(264,807)	-	8,117,368	7,852,561
Coverage of loss from 2016 from legal reserves and retained earnings	-	-	-	(7,730,293)	7,730,293	-
Liabilities for dividends	-	-	-	-	(16,808)	(16,808)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	(19,881)	-	19,881	-
Other increases / (decreases)	-	-	-	-		-
Balance at December 31, 2017	17,191,466	22,843,084	4,026,721	11,061,535	8,137,249	63,260,055

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016
(Thousands of RSD)

	Issued Capital (Note 37)	Share Premium (Note 37)	Revaluation Reserves (Note 37)	Reserves from Profit and Other Reserves (Note 37)	Retained Earnings/Acc. losses (Note 37)	Total (Note 37)
Balance at January 1, 2016	17,191,466	22,843,084	3,749,864	24,935,440	(5,881,808)	62,838,046
Loss for the year	-	-	-	-	(8,063,183)	(8,063,183)
Increase in revaluation reserves from property. plant and equipment	-	-	58,580	-	-	58,580
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	615,885	-	-	615,885
Actuarial gains/(losses)	-	-	(3,626)	-	-	(3,626)
Tax effects on other comprehensive income	-	-	(85,631)	-	-	(85,631)
Other comprehensive income for the year, net of tax	-	-	585,208	-	-	585,208
Total comprehensive income for the year	-	-	585,208	-	(8,063,183)	(7,477,975)
Coverage of loss from 2015 from legal reserves and retained earnings	-	-	-	(6,143,612)	6,143,612	-
Liabilities for dividends	-	-	-	-	(23,531)	(23,531)
Gains realized from the revaluation reserves (effect of depreciation)			(23,663)		23,663	-
Other increases / (decreases)	-	-		-	87,762	87,762
Balance at December 31, 2016	17,191,466	22,843,084	4,311,409	18,791,828	(7,713,485)	55,424,302

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 15 March 2018.

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

Miroslav Perić
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Slađana Jelić
Deputy Chief Executive Officer

STATEMENT OF CASH FLOWS
Year Ended December 31, 2017
(Thousands of RSD)

	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**23,708,278**	**24,168,618**
Interest	15,548,877	17,682,430
Fee and commission	6,685,133	6,248,817
Other operating income	1,465,131	221,659
Dividends and profit sharing	9,137	15,712
Cash used in operating activities	**(14,476,414)**	**(16,181,571)**
Interest	(2,077,828)	(4,299,376)
Fee and commission	(1,604,753)	(1,434,203)
Payments to and on behalf of employees	(4,720,871)	(4,399,017)
Taxes, contributions and other duties paid	(872,611)	(805,896)
Other operating expenses	(5,200,351)	(5,243,079)
Net cash inflow from operating activities prior to changes in loans and deposits	**9,231,864**	**7,987,047**
Decrease in loans and increase in deposits received and other liabilities	**8,861,801**	**35,586,694**
Decrease in financial assets initially recognized at fair value through profit and loss, held for trading and other securities not held for investment	8,861,801	12,275,923
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	-	23,310,771
Increase in loans and decrease in deposits received and other liabilities	**(18,262,489)**	**(15,390,102)**
Increase in loans and receivables due from banks, other financial institutions. the central bank and customers	(4,081,054)	(15,390,102)
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	(14,181,435)	
Net cash generated by operating activities before income taxes		**28,183,639**
Net cash used by operating activities before income taxes	**(168,824)**	-
Dividends paid	-	(119,477)
Net cash generated by operating activities	-	**28,064,162**
Net cash used by operating activities	**(168,824)**	-

STATEMENT OF CASH FLOWS (continued)
Year Ended December 31, 2017
(Thousands of RSD)

B. CASH FLOWS FROM INVESTING ACTIVITIES	2017	2016
Cash generated by investing activities	**54,583,075**	**38,321,634**
Proceeds from investment securities	54,463,556	38,321,128
Proceeds from the sales of intangible assets, property. plant and equipment	637	506
Proceeds from sales of investment properties	118,882	-
Cash used in investing activities	**(51,054,260)**	**(55,450,645)**
Cash used for investment securities	(50,603,633)	(54,924,710)
Cash used for the purchases of intangible assets, property, plant and equipment	(450,627)	(525,935)
Net cash generated in investing activities	**3,528,815**	-
Net cash used in investing activities	-	**(17,129,011)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**87,369,782**	**122,944,052**
Inflows from the borrowings	87,369,782	122,944,052
Cash used in financing activities	**(98,614,492)**	**(135,370,304)**
Cash used in the repayment of subordinated debts	(5,923,635)	-
Cash used in the repayment of borrowings	(92,690,857)	(135,370,304)
Net cash used in financing activities	**(11,244,710)**	**(12,426,252)**
TOTAL CASH INFLOWS	174,522,936	221,020,998
TOTAL CASH OUTFLOWS	(182,407,655)	(222,512,099)
NET CASH DECREASE	**(7,884,719)**	**(1,491,101)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	34,945,610	36,227,664
FOREIGN EXCHANGE GAINS	-	209,047
FOREIGN EXCHANGE LOSSES	(745,993)	-
CASH AND CASH EQUIVALENTS, END OF YEAR	**26,314,898**	**34,945,610**

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 15 March 2018.

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

Miroslav Perić	Slađana Jelić
Member of the Executive Board	Deputy Chief Executive Officer

БАНКА АД БЕОГРАД КОМЕРЦИЈАЛНА БЕОГРАД

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna Bank a.d., Beograd (hereinafter the "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 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 principal holders of voting shares in the Bank are as follows:

Republic of Serbia	41.74%
EBRD, London	24.43%

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations in the country and abroad.

As of December 31, 2017, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 6 business centers, 5 business and corporate centers, 1 branch and 203 sub-branches in the territory of the Republic of Serbia (December 31, 2016: 23 branches and 208 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2017, the Bank had 2,806 employees (December 31, 2016: 2,858 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2017 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying 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 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 Bank adhered to the accounting policies described in Note 3.

The Bank's financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia.

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

2.2. Changes in accounting policy and disclosures

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 2017:

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

  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. The Amendments were not applicable for the Bank.

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

  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. The Amendments were not applicable for the Bank.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Bank's financial statements.

  - ***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.

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

2.3. Standards issued but not yet effective and not early adopted

- **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 fist-time adoption of standard and has disclosed it in the Notes to the Financial Statements.

- **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

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **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. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements

- **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 requirements of this standard will have significant effect on 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 requirements of this standard will have significant effect on Bank's financial statements

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. It is not expected that the requirements of this standard will have significant effect on 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 requirements of this standard will have significant effect on Bank's financial statements

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements

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

2.3. Standards issued but not yet effective and not early adopted (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 requirements of this standard will have significant effect on 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 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 requirements of this standard will have significant effect on 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.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

2.3. Standards issued but not yet effective and not early adopted (continued)

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.
- ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

IFRS 9 „Financial instruments“

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 project to implement IFRS 9 which is lead by the deputy Chief Executive Officer competent for risk. During the Project, the Bank has analysed effects of IFRS 9 on different processes, including accounting of financial instruments, risk evaluation, IT system, funds placement, development of new products and so on. Bank has engaged consultants to help IFRS 9 to be successfully implemented and the following phases have been conducted:

- Business model estimation;
- Classification and measurement;
- Impairment of financial assets and fair value calculation.

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.

According to IFRS 9, financial assets will be measured in one off the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI).

The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Ownership instruments, in non-dependent entities that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

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

2.3. Standards issued but not yet effective and not early adopted (continued)

Classification and measurement (continued)

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

▸ the goal of a business model of holding a financial asset is the collection of contracted cash flows and

▸ contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

▸ The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and

▸ contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

IFRS requires that all financial assets, other than derivatives and equity instruments, be analyzed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

Based on the conducted analysis, the Bank does not expect that the new classification requirements will materially impact the accounting recognition of receivables, loans, investments in debt securities and equity instruments. The results of the initial assessment indicated that:

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

2.3. Standards issued but not yet effective and not early adopted (continued)

Classification and measurement (continued)

▸ Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;

▸ Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;

▸ Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

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 through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies.
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 defined the criteria for classifying financial instruments into levels 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Segment 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Segment 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Segment 2

All financial instruments in which credit risk exacerbation is realized are classified in Segment 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument.
The Bank is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

2.3. Standards issued but not yet effective and not early adopted (continued)

Classification and measurement (continued)

significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.

Segment 3

As in accordance with IAS 39, financial instruments are included in Segment 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

Based on the analysis carried out by the date of these financial statements, the total estimated effect of the first application of IFRS 9 amounts to RSD 1.16 billion, of which RSD 0.2 billion relates to impairment of exposure to the Republic of Serbia and the National Bank of Serbia, mostly on the basis of a portfolio of securities of the value classified as available for sale in accordance with IAS 39. Aforementioned effects are preliminary, due to the fact that the Bank is still in the process of finalizing standard implementation. The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings account. The Bank will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Bank will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

2.4. Going Concern

The financial statements were prepared on a going concern assumption entailing the Bank'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 applied consistently to all periods presented in these financial statements.

(a) Consolidation

The Bank has control over the following legal entities, which are not 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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (continued)

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's separate financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into RSD at the spot middle exchange rates 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 statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

	2017	2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473
JPY	0.8791	1.0044

(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, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income from non-performing loans is recognized at the net principle, reducing the gross interest accrued by the impairment allowance amount, i.e. the amount that is likely not to be collected.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest (continued)

Interest income and expenses on all trading assets and liabilities are considered to be incidental to the Bank's 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 write-off, based on the laws that have been enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected amount of deferred tax liabilities or assets.

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, the Bank pays various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under "Other operating expenses".

(j) Financial assets and liabilities

(i) Recognition

The Bank initially recognizes loans and receivables, deposits, borrowings and subordinated liabilities on the date which they are transferred to the borrower or received. All other financial assets and liabilities are initially recognized on the date at which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

The Bank classified its 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 Bank classifies its financial liabilities as measured at amortized cost or held for trading – please refer to accounting policies.

(iii) De-recognition

The Bank derecognizes 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 Bank 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 de-recognition that is created or retained by the Bank is recognized as a separate asset or liability

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) De-recognition (continued)

in the statement of financial position. On de-recognition 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.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, 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 the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank 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.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize 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 Bank's trading activity.

(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 Bank measures 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 Bank establishes 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 the Bank, 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 Bank 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Fair Value Measurement (continued)

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

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank 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 the Bank 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 Bank assesses 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 the Bank on terms that the 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.

The Bank 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vii) Identification and Measurement of Impairment (continued)

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

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

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

The Bank write-off certain loans and receivables and investment securities when they are determined to be uncollectible (refer to note 4.1.1).

(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 Bank in the management of its short-term commitments.

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 Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, 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 are 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:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trading Assets and Liabilities (continued)

- 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 include 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 statement of comprehensive income, 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 Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Approved RSD loans which are hedged using a contractual currency clause linked to the RSD to EUR exchange rate, to another foreign currency or consumer price index are converted into RSD 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 write-offs is recognized in the statement of comprehensive income in impairment charge for credit losses.

(n) Investment Securities

Investment securities are initially measured at fair value plus, in case of investment securities other than fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investment Securities (continued)

(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 Bank has 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 the Bank 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 the Bank has collected substantially all of the asset's original principal, and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Bank'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 the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank 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.

Unquoted equity securities whose fair value cannot be reliably measured are carried 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 the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investment Securities (continued)

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

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired (long and continuing decline in the fair value in the period longer than twelve months, as well as decline above 30% of cost), as well as the cumulative loss that had been recognized in other comprehensive income 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 the Bank 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 measured at cost.

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 the Bank 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	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Leasehold improvements	1 – 23.5	4.25%-86.20%

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 by the Bank 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 10 years and amortization rates used range between 10.00% and 33.34%.

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

(q) Investment Property

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Investment Property (continued)

For subsequent measurement of investment property the Bank uses 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) Leases

The Bank is a lessee based on leasing agreements. The Bank classifies 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 Bank's 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 Bank's 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.

(s) Impairment of Non-Financial Assets

The carrying amounts of the Bank'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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Deposits, Borrowings and Subordinated Liabilities

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

The Bank classifies 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.

(u) Provisions

A provision is recognized if, as a result of a past event, the Bank 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.

(v) Employment Benefits

In accordance with regulatory requirements, the Bank is 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 Bank is 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 Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2017 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 35(b).

(w) 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.

(x) Capital and Reserves

The Bank's equity consists of founders' capital, shares of subsequent issues, share premium, profit reserves, revaluation reserves and unrealized losses on available for sale securities, retained earnings and current period result.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Capital and Reserves (continued)

The Bank's equity is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(y) Earnings per Share

The 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 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 preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

(z) Segment Reporting

An operating segment is a component of the Bank 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 Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank 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.

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.

4. RISK MANAGEMENT

The Bank 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 Bank 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 Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

4. RISK MANAGEMENT (CONTINUED)

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the year 2017 (grouping of branches into Business centers, changes in the function of economy and population, changes in decision making), as well as changes of internal acts which regulates risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of problematic receivables and exposures to one person or a group of related parties has improved.

Starting from 30.06.2017. The Bank applies the Basel III standard and has taken all necessary measures to timely harmonize its business with the new regulations. Through a clearly defined process of introducing new and significantly altered products, services and processes related to processes and systems, the Bank analyzes their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially adverse effects on the financial result Banks.

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 Bank’s business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank’s capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

4. RISK MANAGEMENT (CONTINUED)

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

4. RISK MANAGEMENT (CONTINUED)

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.

The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

In 2017, the Bank calculated the allowance for impairment in accordance with the IAS 39 and IAS 37 standards, which are applicable as of 31 December 2017. y At the beginning of 2018, the Bank performed the harmonization of internal acts (methodologies and procedures) in accordance with the amendments to the regulations of the National Bank of Serbia in the field of accounting and financial reporting, introducing the obligation to apply the International Financial Reporting Standard 9 in banks (IFRS 9). The aforementioned amendments prescribe the obligation of banks to, from 1 January 2018 and going forward, the impairment calculation is carried out in accordance with IFRS 9. In accordance with IFRS 9, the Bank has adopted a new Methodology for assessing impairment of balance sheet assets and probable loss on off-balance sheet items, which will apply from 1 January 2018.

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Department) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

4. RISK MANAGEMENT (CONTINUED)

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established

by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

Types of Risk

In its regular course of business, the Bank 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 Bank's regular operations.

4. RISK MANAGEMENT (CONTINUED)

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 Bank has 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, the Bank 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 Bank's competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Considering the importance of credit risk, dispersion has been made at decision levels when placing funds of the Bank. This dispersion is provided by determining the limits to which individual persons or authorities may decide. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors

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.

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

Credit Risk Management

According to the volume, type and complexity of its operations, the Bank 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 Bank 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 Bank has 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 Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.

4. RISK MANAGEMENT (CONTINUED)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

The basic principles of credit risk management are as follows:

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

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Bank performs 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. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. Application of these principles allows the Bank to cover unexpected losses due to the customer's inability to settle liabilities as they fall due, in accordance with contractually defined terms. For these purposes, the Bank classifies receivables and assesses the level of necessary reserve using the regular analysis of portfolio. The analysis includes the measurement of adequacy of reserves formed against individual borrowers, risk categories, portion of portfolio and at overall portfolio level.

In December 2017, in accordance with the amendments to the regulations of the National Bank of Serbia, the Bank has harmonized the method of classification of clients to which the loan is granted or approves the loan for closing or closing of the risky placement directly or indirectly, as well as the manner of calculating the required reserves.

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

Basic credit risk alleviating techniques are:

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Credit Risk Management (continued)

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

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

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

Monitoring investment 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.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, 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 Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating 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 Bank initiates reversal of the remaining receivables, or transfer from the balance sheet to off balance sheet.

In accordance with the regulations of the National Bank of Serbia (Decision on accounting reverse of the balance sheet assets of the bank), as well as amendments to the legislation related to tax treatment, in 2017, the Bank made a reverse of all impaired receivables by transfer from balance sheet to off-balance sheet records. The result was a reduction in gross loans and value adjustments in the balance sheet, and consequently a decrease in NPL indicators.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank 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.

4. RISK MANAGEMENT (CONTINUED)

Credit Risk Management (continued)

Identification of problematic and restructured claims

The Bank monitors 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.

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 claims that are late in settling liabilities over 90 days, under any material obligation to the Bank (parent company) or subordinated companies, receivables where, on the basis of the financial situation, it is estimated that the borrower will not be able to settle its obligations in completely without taking into account the possibility of implementing credit protection instruments (regardless of whether they are late in settling liabilities), claims for which the amount of the impairment is determined on an individual basis, as well as potential liabilities based on the issued guarantees (if it is probable that they will be activated) and the irrevocable liabilities assumed (if their withdrawal would lead to the creation of claims that the Bank considers would not be collected completely without the realization of security means). Problems are also considered as claims based on: termination of recording of interest income, commissions and fees in the income statement specific adjustments for credit risk, which are calculated due to significant deterioration in credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, the restructuring of receivables due to the financial difficulties of the debtor, and the submission of a motion to initiate bankruptcy proceedings against the debtor. Problematic claims include all receivables from the debtor, if one claim is classified as a 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 (interest rate reduction, 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,

4. RISK MANAGEMENT (CONTINUED)

Credit Risk Management (continued)

Identification of problematic and restructured claims (continued)

- The Bank 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 Bank (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 Bank regularly monitors the measures taken to restructure the risky placements and controls 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.

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 greater 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 Bank'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 Bank 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 and is acceptable for the Bank (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 history (risk rating categories 4 and 5). In 2017, the Bank improved its internal rating system by dividing risk category 4 into three sub-categories: 4 - non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

4. RISK MANAGEMENT (CONTINUED)

Downgrade Risk (continued)

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

Risk of Change in Value of Assets

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

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

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

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

The Bank assesses allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

The Bank assesses impairment of each individually significant loan with default status (risky placement, risk subcategory 4D, 4DD and 5 according to internal rating system) 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. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Bank determines 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:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when, due to the financial difficulties of the debtor, the Bank significantly changes the conditions for repayment of claims in relation to those initially contracted;

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Individual Assessment (continued)

- The debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation or some other type of financial reorganization of the borrower) etc.

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 Bank has.

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the assessment of the expected inflow from placement, which are primarily related to the documentation on planned future cash flows of the debtor.

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 Assessment

Impairment is assessed on a group basis for loans with no objective evidence of impairment identified and which are not individually significant with the status default and for loans where the amount of value adjustments on the individual basis has not been determined, as well as on commissions and other receivables that do not have elements to reduce to 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.

Calculation of group impairment percentages is based on the probability of the occurrence of non-settlement status of the debtor's (PD) obligations arising from the migration of risk categories into the status of non-settlement of liabilities by type of client or product.

Appreciating the specifics in dealing with clients, migrations for legal entities, households by types of products, banks and entrepreneurs are especially determined.

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

Assessment of Provisions for 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 Bank also performs determination of probable loss for unused commitments, for which it has not contracted unconditionally and without notice, the possibility of cancellation of contractual obligations. When calculating provisions for unused commitments, the Bank uses the conversion factor (CCF), by which the book value of unused commitments is adjusted.

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Assessment of Provisions for Losses on Off-Balance Sheet Items (continued)

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 the Bank uses, 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.

As a standard collaterals Bank accepts 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 Bank provides 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 Bank, and the insurance policies must be endorsed in favor of the Bank.

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 Bank protects 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 Bank pays 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Means of protection against credit risk (collaterals) (continued)

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 Bank's portfolio with movements in the market value in the Republic of Serbia 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 Bank conducts 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 its value, the Bank monitors and updates 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.

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2017 and 2016 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).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

Maximum Credit Risk Exposure (continued)

(000) RSD

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
I. Assets	**399,678,901**	**369,183,538**	**442,110,850**	**400,017,469**
Cash and cash funds held with the central bank	49,840,887	49,840,887	55,153,209	55,153,209
Loans and receivables due from banks and other financial institutions	29,746,347	29,543,789	40,911,287	40,601,413
Loans and receivables due from customers	171,931,966	153,897,367	180,056,414	150,411,409
Financial assets	117,288,770	117,288,767	136,532,653	136,366,773
Other assets	9,347,623	6,798,506	8,901,845	6,252,855
Non-montary assets	21,523,308	11,814,222	20,555,442	11,231,810
II. Off-Balance Sheet Items	**34,284,701**	**34,160,309**	**31,819,175**	**31,388,234**
Payment guarantees	3,443,746	3,416,712	3,635,706	3,572,933
Performance bonds	4,349,152	4,320,139	6,728,901	6,695,266
Irrevocable commitments	26,194,257	26,149,893	20,862,103	20,811,873
Other items	297,546	273,565	592,465	308,162
Total (I+II)	**433,963,602**	**403,343,847**	**473,930,025**	**431,405,703**

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

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

(000) RSD

31.12.2017	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	35,946,088	1,532,193	37,478,281	94,115	520,302	614,417	36,863,864
Cash Loans	24,286,208	302,978	24,589,186	200,232	229,834	430,066	24,159,120
Agricultural Loans	7,153,549	205,883	7,359,432	61,549	100,090	161,639	7,197,793
Oher Loans	5,353,083	383,880	5,736,963	76,780	372,548	449,328	5,287,635
Micro business	7,704,698	697,867	8,402,565	100,490	289,855	390,345	8,012,220
Total Retail	**80,443,626**	**3,122,801**	**83,566,427**	**533,166**	**1,512,629**	**2,045,795**	**81,520,632**
Large corporate clients	35,400,783	16,940,157	52,340,940	260,084	11,881,024	12,141,108	40,199,2
Middle corporate clients	9,776,084	2,037,738	11,813,822	54,739	1,349,336	1,4044,075	10,409,747
Small corporate clients	3,979,898	1,378,923	5,358,821	64,820	685,329	750,149	4,608,672
State owned clients	9,612,889	997,190	10,610,079	89,830	166,416	256,246	10,353,833
Other	6,804,318	1,437,559	8,241,877	78	1,437,148	1,437,226	6,804,651
Total Corporate	**65,573,972**	**22,791,567**	**88,365,539**	**469,551**	**15,519,253**	**15,988,804**	**72,376,735**
Total	**146,017,598**	**25,914,368**	**171,931,966**	**1,002,717**	**17,031,882**	**18,034,599**	**153,897,367**
Due from Banks	**29,543,789**	**202,558**	**29,746,347**	**-**	**202,558**	**202,558**	**29,543,789**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

(000) RSD

31.12.2016	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	37,271,767	1,992,031	39,263,798	87,198	938,529	1,025,727	38,238,071
Cash Loans	18,968,032	924,303	19,892,334	135,493	846,686	982,179	18,910,155
Agricultural Loans	6,081,950	467,403	6,549,353	48,880	383,758	432,638	6,116,715
Oher Loans	5,239,787	662,682	5,902,469	72,520	650,164	722,684	5,179,785
Micro business	6,576,089	1,121,115	7,697,204	91,716	692,740	784,456	6,912,748
Total Retail	**74,137,624**	**5,167,534**	**79,305,158**	**435,807**	**3,511,876**	**3,947,683**	**75,357,475**
Large corporate clients	32,748,652	24,027,084	56,775,736	319,008	19,521,746	19,840,754	36,934,982
Middle corporate clients	16,393,603	3,048,236	19,441,839	191,212	2,173,057	2,364,269	17,077,570
Small corporate clients	6,652,793	1,865,471	8,518,264	108,851	1,130,266	1,239,117	7,279,147
State owned clients	8,447,554	1,914,002	10,361,556	64,686	562,870	627,556	9,734,000
Other	4,028,278	1,625,583	5,653,861	42	1,625,583	1,625,625	4,028,236
Total Corporate	**68,270,880**	**32,480,376**	**100,751,256**	**683,800**	**25,013,522**	**25,697,322**	**75,053,934**
Total	**142,408,504**	**37,647,910**	**180,056,414**	**1,119,607**	**28,525,398**	**29,645,005**	**150,411,409**
Due from Banks	**40,601,413**	**309,874**	**40,911,287**	**-**	**309,874**	**309,874**	**40,601,413**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment in Balance sheet

(000) RSD

	31.12.2016	Increase in impairment	Decrease in impairment	Other changes*	31.12.2017
Retail	3,947,684	1,865,210	(1,608,988)	(2,158,111)	2,045,795
Corporate	25,697,321	8,727,407	(8,514,240)	(9,921,683)	15,988,805
Total	**29,645,005**	**10,592,617**	**(10,123,228)**	**(12,079,795)**	**18,034,599**
Due from Banks	**309,874**	**-**	**(60,561)**	**(46,755)**	**202,558**

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

Impaired Loans and Receivables

Impaired loans and receivables are those for which the Bank has 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 (impaired receivables). Estimates of impairment are made for each individually significant placement with the status of non-settlement of defaults (default risk sub-category 4D and 4DD according to the internal rating system and risk categories 5), if there is objective evidence of impairment as a result of one or more events occurring after initial recognition financial assets and if there is a measurable decrease in future cash flows.

Significant decrease in value adjustments in the balance sheet in 2017 resulted from the transfer of 100% of impaired placements to off-balance sheet records, as well as significantly higher collection of risk placements than planned.

Receivables Matured but not Impaired

For receivables matured but not impaired (rating categories 1, 2, 3 and subcategory 4), impairment is assessed by group (uncollected receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

Assessment of group impairment is based on the probability of the occurrence of the status of non-settlement of the debtor's obligations (PD) calculated on the basis of migration into the status of default, by type of client or product. Appreciating the specifics in dealing with clients, migrations for legal entities, households by types of products, banks and entrepreneurs are especially determined.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans not impaired, by days past due

(000) RSD

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	35,370,869	292,352	83,716	199,151	-	**35,946,088**
Cash Loans	22,652,874	1,470,506	109,774	53,054	-	**24,286,208**
Agricultural Loans	6,887,620	175,355	69,829	20,745	-	**7,153,549**
Other Loans	5,030,740	288,625	24,275	9,444	-	**5,353,083**
Micro Business	6,645,290	1,024,721	31,242	3,446	-	**7,704,698**
Total Retail	**76,587,393**	**3,251,558**	**318,835**	**285,839**	**-**	**80,443,626**
Large corporate clients	35,065,168	148,661	186,954	-	-	**35,400,783**
Middle corporate clients	8,859,787	831,450	84,847	-	-	**9,776,084**
Small corporate clients	3,701,976	268,408	9,514	-	-	**3,979,898**
State owned clients	9,494,453	118,436	-	-	-	**9,612,889**
Other	6,804,266	52	-	-	-	**6,804,318**
Total Corporate	**63,925,650**	**1,367,008**	**281,315**	-	**-**	**65,573,972**
Total	**140,513,043**	**4,618,566**	**600,150**	**285,840**	**-**	**146,017,598**
Out of which: restructured	614,572	165,746	-	-	-	780,319
Due from Banks	**25,520,572**	**4,023,218**	**-**	**-**	**-**	**29,543,789**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans not impaired, by days past due

(000) RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90	Over 90 days	Total
Housing Loans	36,498,786	413,924	116,420	242,637	-	**37,271,767**
Cash Loans	17,653,066	1,161,811	109,521	43,633	-	**18,968,032**
Agricultural Loans	5,835,530	184,662	45,886	15,871	-	**6,081,950**
Other	4,917,052	286,982	23,188	12,566	-	**5,239,787**
Micro Busines	5,699,965	865,677	9,373	1,073	-	**6,576,089**
Total Retail	**70,604,398**	**2,913,056**	**304,389**	**315,781**	**-**	**74,137,624**
Large corporate clients	32,639,078	109,574	-	-	-	**32,748,652**
Middle corporate clients	14,925,524	1,468,079	-	-	-	**16,393,603**
Small corporate clients	5,919,535	725,740	7,518	-	-	**6,652,793**
State owned clients	8,261,953	185,600	-	-	-	**8,447,554**
Other	4,027,039	1,239	-	-	-	**4,028,278**
Total Corporate	**65,773,131**	**2,490,231**	**7,518**	**-**	**-**	**68,270,880**
Total	**136,377,529**	**5,403,288**	**311,907**	**315,781**	**-**	**142,408,504**
Out of which: restructured	2,014,929	176,746	10,745	9,734	-	2,212,153
Due from Banks	**40,601,413**	**-**	**-**	**-**	**-**	**40,601,413**

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans impaired, by days past due

(000) RSD

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	176,439	51,838	16,277	26,621	1,261,018	**1,532,194**
Cash Loans	40,921	14,348	8,515	13,420	225,774	**302,978**
Agricultural Loans	19,594	5,777	9,331	8,430	162,751	**205,882**
Other	10,392	460	475	218	372,334	**383,880**
Micro Busines	69,521	15,136	937	1,629	610,643	**697,866**
Total Retail	**316,867**	**87,560**	**35,536**	**50,317**	**2,632,521**	**3,122,801**
Large corporate clients	2,262,581	-	-	-	14,677,576	**16,940,157**
Middle corporate clients	93,355	20,675	-	58,566	1,865,142	**2,037,738**
Small corporate clients	87,971	373,012	36,677	2,832	878,430	**1,378,923**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,737	-	-	-	822	**1,437,559**
Total Corporate	**4,621,696**	**416,709**	**36,677**	**61,398**	**17,655,086**	**22,791,567**
Total	**4,938,564**	**504,269**	**72,213**	**111,715**	**20,287,607**	**25,914,368**
Out of which: restructured	2,541,031	61,564	54,121	73,779	15,991,941	18,722,435
Due from Banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Receivables Matured but not Impaired (continued)

Loans impaired, by days past due

(000) RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	170,754	45,426	27,781	50,836	1,697,234	**1,992,031**
Cash Loans	38,302	16,201	9,168	14,898	845,734	**924,303**
Agricultural Loans	9,748	3,642	3,293	2,457	448,263	**467,403**
Other	11,630	563	155	638	649,696	**662,682**
Micro Busines	16,405	5,158	19,453	14,500	1,065,599	**1,121,115**
Total Retail	**246,839**	**70,990**	**59,850**	**83,329**	**4,706,526**	**5,167,534**
Large corporate clients	2,521,936	3,466,420	49,512	-	17,989,216	**24,027,084**
Middle corporate clients	290,537	66,476	-	13,254	2,677,968	**3,048,236**
Small corporate clients	469,264	14,998	-	26,523	1,354,687	**1,865,471**
State owned clients	1,267,471	48,709	-	-	597,822	**1,914,002**
Other	1,536,781	-	-	-	88,801	**1,625,583**
Total Corporate	**6,085,990**	**3,596,603**	**49,512**	**39,777**	**22,708,494**	**32,480,376**
Total	**6,332,829**	**3,667,593**	**109,362**	**123,106**	**27,415,020**	**37,647,910**
Out of which: restructured	2,841,737	3,579,359	60,187	7,057	20,125,424	26,613,763
Due from Banks	**309,874**	**-**	**-**	**-**	**-**	**309,874**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.2 Non-Performing Receivables

(000) RSD

31.12.2017	Gross Exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**83,566,427**	**2,045,795**	**3,122,801**	**859,561**	**1,512,629**	**3,74%**	**2,648,094**
Housing Loans	37,478,281	614,417	1,532,194	430,253	520,302	4,09%	1,511,866
Cash Loans	24,589,186	430,066	302,978	27,510	229,833	1,23%	232,677
Agricultural Loans	7,359,432	161,639	205,882	19,626	100,090	2,80%	196,094
Oher Loans	5,736,963	449,327	383,880	-	372,548	6,69%	10,416
Micro business	8,402,565	390,345	697,866	382,172	289,855	8,31%	697,041
Total Retail	**88,365,539**	**15,988,804**	**22,791,567**	**17,862,874**	**15,519,253**	**25,79%**	**21,102,348**
Agricultural Loans	6,066,845	161,354	253,050	28,243	113,994	4,17%	252,908
Manufacturing Industry	22,380,808	5,941,568	9,145,453	8,191,755	5,721,734	40,86%	6,591,232
Electricity	149,035	28,187	67,005	-	174	44,96%	67,005
Construction Loans	5,681,922	891,110	934,013	810,916	885,538	16,44%	1,148,489
Wholesale and Retal	22,011,868	1,845,546	3,652,235	2,846,093	1,756,203	16,59%	3,804,104
Services Loans	13,182,040	1,163,568	1,438,755	1,411,506	1,089,579	10,91%	1,465,235
Real Estate Loans	1,512,515	692,376	1,345,149	960,907	691,123	88,93%	1,370,156
Other	17,380,506	5,265,097	5,955,907	3,613,454	5,260,908	34,27%	6,403,219
Total	**171,931,966**	**18,034,599**	**25,914,368**	**18,722,435**	**17,031,882**	**15,07%**	**23,750,442**
Due to Banks	**29,746,347**	**202,558**	**202,558**	**-**	**202,558**	**0,68%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.2 Non-Performing Receivables

(000) RSD

31.12.2016	Gross Exposure	Gross Value Adjustment	Loans matured and not impaired	Restructured Loans matured and not impaired	Impairment	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**79,305,158**	**3,947,683**	**5,167,534**	**977,774**	**3,511,876**	**6,52%**	**3,720,594**
Housing Loans	39,263,798	1,025,727	1,992,031	443,673	938,529	5,07%	1,804,040
Cash Loans	19,892,334	982,179	924,303	38,240	846,686	4,65%	439,469
Agricultural Loans	6,549,353	432,638	467,403	39,016	383,758	7,14%	388,345
Oher Loans	5,902,469	722,684	662,682	130	650,164	11,23%	27,496
Micro business	7,697,204	784,457	1,121,115	456,716	692,740	14,57%	1,061,244
Total Retail	**100,751,256**	**25,697,322**	**32,480,376**	**25,635,989**	**25,013,522**	**32,24%**	**30,445,066**
Agricultural Loans	6,762,592	286,096	345,824	41,950	223,879	5,11%	370,591
Manufacturing Industry	34,794,713	10,138,902	14,174,435	12,737,641	9,907,593	40,74%	10,594,219
Electricity	83,227	41,674	0	0	0	0,00%	0
Construction Loans	3,137,703	1,393,284	1,351,493	1,122,734	1,276,404	43,07%	1,582,156
Wholesale and Retal	28,424,037	4,290,343	5,149,413	3,981,786	4,153,320	18,12%	5,442,964
Services Loans	10,983,232	2,502,551	2,884,345	2,876,445	2,435,674	26,26%	2,921,787
Real Estate Loans	1,716,719	688,574	1,409,119	954,401	683,881	82,08%	1,454,889
Other	14,849,032	6,355,898	7,165,746	3,921,032	6,332,770	48,26%	8,078,459
Total	**180,056,414**	**29,645,005**	**37,647,910**	**26,613,763**	**28,525,398**	**20,91%**	**34,165,660**
Due to Banks	**40,911,287**	**309,874**	**309,874**	**-**	**309,874**	**0,76%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.2 Non-Performing Receivables

Changes in provision for impairment

(000) RSD

	Gross 31.12.2016	Impaired during the year	Cease being impaired during the year	Foreign exchange rate	Other Changes*	Gross 31.12.2017	Net 31.12.2017
Housing Loans	1,992,031	341,812	(645,559)	(119,279)	(36,811)	1,532,194	1,011,892
Cash Loans	924,303	180,737	(790,385)	(2,436)	(9,240)	302,978	73,145
Agricultural Loans	467,403	122,872	(372,726)	(7,568)	(4,099)	205,882	105,792
Other	662,682	95,279	(372,518)	(319)	(1,243)	383,880	11,332
Micro Busines	1,121,115	87,406	(481,463)	(36,514)	7,322	697,866	408,011
Total Retail	**5,167,534**	**828,105**	**(2,662,652)**	**(166,116)**	**(44,070)**	**3,122,801**	**1,610,172**
Large corporate clients	24,027,084	1,467,414	(8,137,397)	(811,340)	394,396	16,940,157	5,059,133
Middle corporate clients	3,048,236	37,985	(1,061,064)	(85,188)	97,769	2,037,738	688,402
Small corporate clients	1,865,471	183,291	(575,711)	(51,880)	(42,248)	1,378,923	693,593
State owned clients	1,914,002	68,060	(525,411)	(64,543)	(394,919)	997,190	830,774
Other	1,625,583	412	(88,390)	(51,932)	(48,112)	1,437,559	412
Total Corporate	**32,480,376**	**1,757,162**	**(10,387,972)**	**(1,064,883)**	**6,885**	**22,791,567**	**7,272,313**
Total	**37,647,910**	**2,585,267**	**(13,050,624)**	**(1,231,000)**	**(37,185)**	**25,914,368**	**8,882,485**
Due from Banks	**309,874**	**-**	**-**	**-**	**(107,316)**	**202,558**	**-**

**Other changes relate to orderly settlement of debt during 2017 which caused decrease in credit exposure.*

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.3 Performing Receivables

(000) RSD

	31.12.2017					31.12.2016				
	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	35,707,544	228,663	9,881	35,946,088	35,671,079	36,697,560	568,687	5,520	37,271,767	36,947,007
Cash Loans	24,222,726	62,847	635	24,286,208	11,521,899	18,905,256	61,140	1,635	18,968,032	15,533,373
Agricultural Loans	7,125,547	27,708	294	7,153,549	6,059,245	6,054,901	24,463	2,586	6,081,950	5,777,082
Other	5,331,736	18,050	3,297	5,353,083	96,689	5,194,917	40,824	4,046	5,239,787	108,277
Micro Busines	7,286,079	356,729	61,890	7,704,698	7,704,263	6,095,662	288,095	192,331	6,576,089	6,574,964
Total Retail	**79,673,633**	**693,996**	**75,997**	**80,443,626**	**61,053,174**	**72,948,296**	**983,209**	**206,119**	**74,137,624**	**64,940,703**
Large corporate clients	34,569,288	831,495	-	35,400,783	34,954,220	28,720,712	4,027,940	-	32,748,652	31,946,195
Middle corporate clients	9,584,446	190,160	1,478	9,776,084	9,647,024	16,034,901	358,702	-	16,393,603	16,279,237
Small corporate clients	3,844,531	135,365	2	3,979,898	3,955,505	6,190,681	431,993	30,119	6,652,793	6,619,405
State owned clients	7,794,070	1,768,042	50,777	9,612,889	6,158,448	6,638,454	500,825	1,308,275	8,447,554	5,311,410
Other	3,052,381	3,751,885	52	6,804,318	3,752,134	216	4,027,641	421	4,028,278	4,029,428
Total Corporate	**58,844,716**	**6,676,947**	**52,309**	**65,573,972**	**58,467,332**	**57,584,964**	**9,347,101**	**1,338,815**	**68,270,880**	**64,185,675**
Total	**138,518,348**	**7,370,943**	**128,307**	**146,017,598**	**119,520,506**	**130,533,261**	**10,330,310**	**1,544,934**	**142,408,504**	**129,126,378**
Due from Banks	**29,543,789**	**-**	**-**	**29,543,789**	**-**	**40,601,413**	**-**	**-**	**40,601,413**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables

(000) RSD

31.12.2017	Gross exposure	Impairment of gross exposure	Restructured receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for restructured receivables
Retail	**83,566,427**	**2,045,795**	**1,093,014**	**859,561**	**310,969**	**1,31%**	**1,089,912**
Housing Loans	37,478,281	614,417	655,486	430,253	164,162	1,75%	654,999
Cash Loans	24,589,186	430,066	35,466	27,510	13,135	0,14%	33,730
Agricultural Loans	7,359,432	161,639	19,626	19,626	5,399	0,27%	18,746
Oher Loans	5,736,963	449,327	-	-	-	0,00%	-
Micro business	8,402,565	390,345	382,436	382,172	128,273	4,55%	382,436
Total Retail	**88,365,539**	**15,988,804**	**18,409,740**	**17,862,874**	**12,699,795**	**20,83%**	**18,381,116**
Agricultural Loans	6,066,845	161,354	28,243	28,243	16,593	0,47%	28,243
Manufacturing Industry	22,380,808	5,941,568	8,598,619	8,191,755	5,660,335	38,42%	8,591,732
Electricity	149,035	28,187	-	-	-	0,00%	-
Construction Loans	5,681,922	891,110	831,141	810,916	788,286	14,63%	831,141
Wholesale and Retal	22,011,868	1,845,546	2,946,223	2,846,093	1,224,670	13,38%	2,924,486
Services Loans	13,182,040	1,163,568	1,431,154	1,411,506	1,089,580	10,86%	1,431,154
Real Estate Loans	1,512,515	692,376	960,907	960,907	673,604	63,53%	960,907
Other	17,380,506	5,265,097	3,613,454	3,613,454	3,246,727	20,79%	3,613,454
Total	**171,931,966**	**18,034,599**	**19,502,754**	**18,722,435**	**13,010,764**	**11,34%**	**19,471,028**
Due to Banks	**29,746,347**	**202,558**	**-**	**-**	**-**	**0,00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables (continued)

(000) RSD

31.12.2016	Gross exposure	Impairment of Gross exposure	Restructured receivables	Non-performing restructured receivables	Impairment of restructured receivables	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**79,305,158**	**3,947,683**	**1,287,125**	**977,774**	**407,116**	**1,62%**	**1,277,770**
Housing Loans	39,263,798	1,025,727	738,398	443,673	193,064	1,88%	737,546
Cash Loans	19,892,334	982,179	47,301	38,240	23,734	0,24%	39,888
Agricultural Loans	6,549,353	432,638	39,016	39,016	22,796	0,60%	37,941
Oher Loans	5,902,469	722,684	130	130	130	0,00%	130
Micro business	7,697,204	784,457	462,279	456,716	167,392	6,01%	462,264
Total Retail	**100,751,256**	**25,697,322**	**27,538,792**	**25,635,989**	**20,608,449**	**27,33%**	**27,513,470**
Agricultural Loans	6,762,592	286,096	41,950	41,950	553	0,62%	41,950
Manufacturing Industry	34,794,713	10,138,902	12,891,752	12,737,641	9,552,935	37,05%	12,891,292
Electricity	83,227	41,674	-	-	-	0,00%	-
Construction Loans	3,137,703	1,393,284	1,122,734	1,122,734	1,072,398	35,78%	1,122,734
Wholesale and Retal	28,424,037	4,290,343	5,629,395	3,981,786	3,286,892	19,81%	5,629,395
Services Loans	10,983,232	2,502,551	2,977,528	2,876,445	2,427,775	27,11%	2,954,114
Real Estate Loans	1,716,719	688,574	954,401	954,401	644,009	55,59%	954,401
Other	14,849,032	6,355,898	3,921,032	3,921,032	3,623,888	26,41%	3,919,585
Total	**180,056,414**	**29,645,005**	**28,825,916**	**26,613,763**	**21,015,565**	**16,01%**	**28,791,240**
Due from banks	**40,911,287**	**309,874**	**-**	**-**	**-**	**0,00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables (continued)

Change in restructured receivables

(000) RSD

	Gross 31.12.2016	New Restructured Receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other Changes*	Gross 31.12.2017	Net 31.12.2017
Housing Loans	738,398	51,906	(31,496)	(64,500)	(38,823)	655,486	491,323
Cash Loans	47,301	9,218	(16,189)	(828)	(4,037)	35,466	22,331
Agricultural Loans	39,016	7,677	(25,431)	(1,185)	(450)	19,626	14,227
Other	130	-	(130)	-	-	-	-
Micro Busines	462,279	3,745	(76,674)	(17,518)	10,604	382,436	254,163
Total Retail	**1,287,125**	**72,546**	**(149,920)**	**(84,031)**	**(32,706)**	**1,093,014**	**782,045**
Large corporate clients	24,840,314	434,048	(8,040,092)	(818,068)	241,630	16,657,832	5,080,518
Middle corporate clients	1,692,358	93,170	(534,561)	(56,549)	70,342	1,264,760	438,251
Small corporate clients	523,718	56,738	(45,962)	(20,505)	(27,897)	486,093	190,125
State owned clients	482,401	1,055	(482,401)	(19,533)	19,533	1,055	1,051
Other	-	-	-	-	-	-	-
Total Corporate	**27,538,792**	**585,011**	**(9,103,016)**	**(914,656)**	**303,609**	**18,409,740**	**5,709,945**
Total	**28,825,916**	**657,558**	**(9,252,937)**	**(998,686)**	**270,903**	**19,502,754**	**6,491,990**
Due from Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Measures implemented by the Bank during the restructuring of loans

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

The measures most often taken by the Bank 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,

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.4 Restructured Receivables (continued)

Measures implemented by the Bank during the restructuring of loans(continued)

- 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 Bank's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the Bank has not implemented a partial write-offs during the restructuring, but in the coming period, the Bank 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 analyzed comparatively, and collateral position of the Bank 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.

4.1.5. 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.5. Concentration Risk (continued)

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

(000) RSD

31.12.2017	Performing Receivables					Non-Performing Receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**80,443,626**	**-**	**-**	**-**	**-**	**3,122,801**	**-**	**-**	**-**	**-**
Housing Loans	35,946,088	-	-	-	-	1,532,194	-	-	-	-
Cash Loans	24,286,208	-	-	-	-	302,978	-	-	-	-
Agricultural Loans	7,153,549	-	-	-	-	205,882	-	-	-	-
Other	5,353,083	-	-	-	-	383,880	-	-	-	-
Micro Businesses	7,704,698	-	-	-	-	697,866	-	-	-	-
Corporate Clients	**58,769,024**	**3,751,885**	**3,053,064**	**-**	**-**	**22,791,567**	**-**	**-**	**-**	**-**
Agriculture	5,813,795	-	-	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	-	-	-	-	9,145,453	-	-	-	-
Electric Energy	82,030	-	-	-	-	67,005	-	-	-	-
Construction	4,747,909	-	-	-	-	934,013	-	-	-	-
Wholesale and Retail	18,359,633	-	-	-	-	3,652,235	-	-	-	-
Service Activities	11,743,285	-	-	-	-	1,438,755	-	-	-	-
Real Estate Activities	167,366	-	-	-	-	1,345,149	-	-	-	-
Other	4,619,651	3,751,885	3,053,064	-	-	5,955,907	-	-	-	-
Total	**139,212,649**	**3,751,885**	**3,053,064**	**-**	**-**	**25,914,368**	**-**	**-**	**-**	**-**
Due from banks	**7,883,218**	**8,655**	**494,798**	**4,649,755**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

Depending on general economic trends and developments in individual industrial sectors, the Bank diversifies its investments in industrial sectors that are resistant to the impact of adverse economic developments.

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.5. Concentration Risk (continued)

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

(000) RSD

31.12.2016	Performing Receivables					Non-Performing Receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**74,137,624**	**-**	**-**	**-**	**-**	**5,167,534**	**-**	**-**	**-**	**-**
Housing Loans	37,271,766	-	-	-	-	1,992,031	-	-	-	-
Cash Loans	18,968,032	-	-	-	-	924,303	-	-	-	-
Agricultural Loans	6,081,950	-	-	-	-	467,403	-	-	-	-
Other	5,239,787	-	-	-	-	662,682	-	-	-	-
Micro Businesses	6,576,089	-	-	-	-	1,121,115	-	-	-	-
Corporate Clients	**64,243,239**	**4,027,641**	**-**	**-**	**-**	**32,412,891**	**-**	**-**	**-**	**67,485**
Agriculture	6,416,768	-	-	-	-	345,825	-	-	-	-
Manufacturing Industry	20,620,278	-	-	-	-	14,174,435	-	-	-	-
Electric Energy	83,227	-	-	-	-	-	-	-	-	-
Construction	1,786,210	-	-	-	-	1,351,493	-	-	-	-
Wholesale and Retail	23,274,624	-	-	-	-	5,149,413	-	-	-	-
Service Activities	8,098,887	-	-	-	-	2,884,345	-	-	-	-
Real Estate Activities	307,600	-	-	-	-	1,409,119	-	-	-	-
Other	3,655,645	4,027,641	-	-	-	7,098,261	-	-	-	67,485
Total	**138,380,863**	**4,027,641**	**-**	**-**	**-**	**37,580,425**	**-**	**-**	**-**	**67,485**
Due from banks	**9,000,010**	**8,934**	**187,594**	**8,248,451**	**23,156,425**	**-**	**-**	**-**	**-**	**309,874**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

Risk of Change in Value of Assets (continued)

4.1.6 Financial Assets

(000) RSD

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
Financial Assets:				
- at fair value through profit and loss, held for trading	5.269.709	5,269,709	242,920	242,920
- available for sale	112,019,061	112,019,058	136,205,563	136,123,853
- held to maturity	-	-	84,169	-
Total	**117,288,770**	**117,288,767**	**136,532,652**	**136,366,773**

Financial assets at fair value through profit and loss relate to investment units of KomBank Cash Fund, which are valued through methodology of harmonization with market (mark to market). Swap transactions and bonds of the Republic of Serbia are also carried at fair value through profit and loss are valued through methodology of internally developed models (mark to model).

Available-for-sale financial assets are placements for which there is an intent to hold them in an indefinite period of time and which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, local self-government units and bonds of other banks. Available-for-sale securities are initially estimated at cost, and their fair value is calculated on a quarterly basis, based on market prices for securities traded on the stock market, as well as using internally developed models for mark to model in the case where independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly, nor are they recorded more significant trading volumes, and are based on the maturity of the security levels and levels of risk free interest rates.

Financial assets held to maturity relate as a whole to discounted bills, which were completely impaired on 31 December 2017 and were transferred to off-balance sheet in 2017.

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:

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.1.7. Credit Risk Hedges (Collaterals)

Loans and receivables from clients covered with collaterals

(000) RSD

31.12.2017	Performing Receivables					Non-Performing Receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	34,361,505	3,482	-	1,306,093	35,671,079	1,445,867	-	-	65,999	1,511,866
Cash Loans	57,369	427,817	-	11,036,713	11,521,899	9,447	7,157	-	216,073	232,677
Agricultural Loans	3,058,425	27,539	29,110	2,944,170	6,059,245	145,561	-	12	50,521	196,094
Other	-	5,115	-	91,574	96,689	8,968	4	-	1,444	10,416
Micro Busines	1,424,581	483,147	-	5,796,535	7,704,263	520,421	3,973	-	172,647	697,041
Total Retail	**38,901,880**	**947,100**	**29,110**	**21,175,085**	**61,053,174**	**2,130,264**	**11,134**	**12**	**506,683**	**2,648,094**
Large corporate clients	16,630,551	249,954	6,161,689	11,912,027	34,954,220	14,634,237	-	-	2,301,515	16,935,752
Middle corporate clients	4,664,724	450,957	-	4,531,344	9,647,024	1,806,786	-	-	224,391	2,031,176
Small corporate clients	1,493,305	346,296	-	2,115,904	3,955,505	1,249,791	14	-	134,348	1,384,153
State owned clients	397,383	2,261	709,940	5,048,865	6,158,448	9,160	-	669,596	72,511	751,267
Other	-	-	-	3,752,134	3,752,134	-	-	-	-	-
Total Corporate	**23,185,962**	**1,049,468**	**6,871,628**	**27,360,273**	**58,467,332**	**17,699,973**	**14**	**669,596**	**2,732,765**	**21,102,349**
Total	**62,087,842**	**1,996,568**	**6,900,738**	**48,535,358**	**119,520,506**	**19,830,238**	**11,148**	**669,608**	**3,239,449**	**23,750,442**
Out of which: restructured	459,915	20,225	59,233	219,208	758,582	16,683,792	-	-	2,028,654	18,712,446
Due from Banks	-	-	-	-	-	-	-	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.1.7. Credit Risk Hedges (Collaterals)

Loans and receivables from clients covered with collaterals

(000) RSD

31.12.2016.	Performing Receivables					Non-Performing Receivables				
	Real Estate	Depostits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	35,914,239	-	-	1,032,768	36,947,007	1,697,855	-	-	106,185	1,804,040
Cash Loans	88,013	405,986	-	15,039,375	15,533,373	14,756	3,588	-	421,124	439,469
Agricultural Loans	3,111,711	4,251	43,661	2,617,460	5,777,082	207,062	-	1,364	179,919	388,345
Other	-	5,530	-	102,747	108,277	8,968	-	-	18,528	27,496
Micro Busines	1,245,673	620,072	3,476	4,705,743	6,574,964	781,406	691	-	279,147	1,061,244
Total Retail	**40,359,635**	**1,035,838**	**47,137**	**23,498,093**	**64,940,703**	**2,710,047**	**4,279**	**1,364**	**1,004,903**	**3,720,594**
Large corporate clients	20,289,070	287,947	490,772	10,878,406	31,946,195	18,425,986	-	1,799,847	3,864,613	24,090,446
Middle corporate clients	8,207,574	744,515	49,861	7,277,287	16,279,237	2,142,691	4,197	-	861,146	3,008,035
Small corporate clients	2,392,570	430,689	10,050	3,786,097	6,619,405	1,509,611	-	-	316,764	1,826,375
State owned clients	502,478	-	1,233,649	3,575,284	5,311,410	9,543	-	1,040,837	467,770	1,518,151
Other	1,239	-	-	4,028,189	4,029,428	2,060	-	-	-	2,060
Total Corporate	**31,392,930**	**1,463,151**	**1,784,332**	**29,545,262**	**64,185,675**	**22,089,891**	**4,197**	**2,840,685**	**5,510,294**	**30,445,066**
Total	**71,752,564**	**2,498,989**	**1,831,469**	**53,043,355**	**129,126,378**	**24,799,938**	**8,476**	**2,842,049**	**6,515,197**	**34,165,660**
Out of which: restructured	2,206,442	5,563	-	139	2,212,145	20,618,861	4,407	1,892,942	4,062,886	26,579,096
Due from Banks	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.1.7. Credit Risk Hedges (collaterals) (continued)

Loans and receivables from clients covered with collaterals

The ratio of the loan amount and the estimated value of the real estate held as collateral is monitored by the Loan To Value Ratio range - LTV ratios

Review of loans and receivables secured by mortgages according to LTV range

	31 December 2017	(000) RSD 31 December 2016
Less than 50%	27.072.008	28,108,827
50% - 70%	15.683.073	20,622,962
71% - 100%	17.678.221	22,710,195
101% - 150%	8.586.921	8,938,248
Greater than 150%	16.557.852	24,810,723
Total Expoasure	**85.578.076**	**105,190,955**
Average LTV	**69,05%**	**66,60%**

4.1.8. Material values acquired by collecting receivables

Security assets taken by the Bank in the process of collection of placements are presented in the following review

(000) RSD	Residential Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2016	81,622	2,646,759	111,624	162,889	3,002,894
Acquisition	-	-	-	-	-
Sales	(6,506)	(697,131)	(18)	-	(703,655)
31.12.2017	75,116	1,949,628	111,606	162,889	2,299,239
Impairment Allowances	23,625	723,777	75,872	36,898	860,172
Net	51,491	1,225,851	35,734	125,991	1,439,067

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Bank's financial result and equity resulting from the Bank'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 Bank 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.

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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 Bank 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 Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally defined limits, and monitoring of defined measures for reducing the bank'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 bank'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.

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

The Bank'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 Bank 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.

Starting from 30.06.2017., the Bank adjusts its operations with the regulated indicator of liquid assets coverage, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

(000) RSD

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	2017	2016	2017	2016	2017	2016
As at December 31	4.30	2.86	4.10	2.54	436%	596%
Average for the period	3.99	3.00	3.61	2.59		
Maximum for the period	5.61	3.62	5.21	3.16	-	-
Minimum for the period	2.79	1.88	2.41	1.67	-	-

During 2017, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with last day liquidity ratio limits internally defined:

(000) RSD

	Limits	2017.	2016.
GAP up to 1 month / Total assets	Max (10%)	2.16%	7.00%
Cumulative GAP up to 3 months / Total assets	Max (20%)	5.97%	10.02%

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

Maturity structure of monetary assets and monetary liabilities as of December 31, 2017

(000) 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	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,686,959	3,818,128	169,242	869,460	-	29,543,789
Loans and receivables due from customers	9,806,670	8,007,522	31,304,441	66,132,086	38,646,648	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
Total	**91,027,183**	**27,148,949**	**51,128,037**	**145,888,815**	**39,476,118**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,217	745,420	759,789	745,079	-	4,532,505
Deposits and other liabilities due to customers	207,084,364	12,241,246	48,205,484	23,182,876	1,757,670	292,471,640
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
	214,468,902	**13,078,639**	**50,601,576**	**23,966,241**	**1,757,670**	**303,873,028**
Net liquidity gap						
As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**
As of December 31, 2016	**(115,635,179)**	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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

(000) 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	55,153,209	-	-	-	-	55,153,209
Loans and receivables due from other banks and other financial institutions	36,219,153	3,388,184	-	994,076	-	40,601,413
Loans and receivables due from customers	9,113,791	10,092,590	36,823,101	57,483,448	36,898,479	150,411,409
Financial assets (securities)	4,850,950	13,068,035	47,072,509	69,558,081	1,817,198	136,366,773
Other assets	2,067,974	-	-	1,124,843	-	3,192,817
Total	**107,405,077**	**26,548,809**	**83,895,610**	**129,160,448**	**38,715,677**	**385,725,621**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,425,106	1,086,006	1,532,903	2,767,720	23,227	7,834,962
Deposits and other liabilities due to customers	216,058,611	16,265,810	63,184,786	25,278,902	1,833,251	322,621,360
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,556,539	-	1,047,493	-	-	5,604,032
	223,040,256	**17,351,816**	**71,943,572**	**28,046,622**	**1.856.478**	**342,238,744**
Net liquidity gap						
As of December 31, 2016	**(115,635,179)**	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**
As of December 31, 2015	**(71,477,632)**	**(2,982,662)**	**(8,306,378)**	**96,443,642**	**33,765,604**	**47,439,769**

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 Bank 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 bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.

In near term, the Bank 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 Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

The Bank's management believes that the appropriate 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, which is why no significant outflows of funds are expected.

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2017

(000) 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	49,840,887	-	-	-	-	49,840,887
Loans and receivables due from other banks and other financial institutions	24,694,834	3,819,423	176,500	871,997	-	29,562,754
Loans and receivables due from customers	10,488,970	9,281,745	36,391,907	80,244,629	51,323,984	187,731,235
Financial assets (securities)	4,674,127	13,952,906	19,654,354	78,671,309	336,071	117,288,767
Other assets	2,018,540	1,370,393	-	215,960	493,399	4,098,292
Total	**91,717,358**	**28,424,467**	**56,222,761**	**160,003,895**	**52,153,454**	**388,521,935**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,282,295	768,351	774,739	753,956	-	4,579,341
Deposits and other liabilities due to customers	207,155,763	12,352,718	48,718,660	24,028,096	2,170,681	294,425,918
Other liabilities	5,102,321	91,973	1,636,303	38,286	-	6,868,883
Total	**214,540,379**	**13,213,042**	**51,129,702**	**24,820,338**	**2,170,681**	**305,874,142**
Net liquidity gap						
As of December 31, 2017	**(122,823,021)**	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**
As of December 31, 2016	**(115,241,739)**	**10,824,890**	**17,037,970**	**115,516,149**	**49,587,258**	**77,724,528**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.2. Liquidity Risk (continued)

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

(000) 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	55,153,209	-	-	-	-	55,153,209
Loans and receivables due from other banks and other financial institutions	36,237,653	3,390,001	7,248	1,002,018	-	40,636,920
Loans and receivables due from customers	9,845,162	11,486,494	41,909,912	70,955,160	49,915,395	184,112,123
Financial assets (securities)	4,945,855	13,525,370	48,495,096	71,540,868	1,990,445	140,497,634
Other assets	2,067,974	-	-	1,124,843	-	3,192,817
Total	108,249,853	28,401,865	90,412,256	144,622,889	51,905,840	423,592,703
Deposits and other liabilities due to banks, other financial institutions and central bank	2,427,393	1,127,564	1,589,883	2,831,253	23,445	7,999,538
Deposits and other liabilities due to customers	216,507,660	16,449,411	64,273,297	26,275,487	2,295,137	325,800,992
Subordinated liabilities	-	-	6,463,613	-	-	6,463,613
Other liabilities	4,556,539	-	1,047,493	-	-	5,604,032
Total	223,491,592	17,576,975	73,374,286	29,106,740	2,318,582	345,868,175
Net liquidity gap						
As of December 31, 2016	(115,241,739)	10,824,890	17,037,970	115,516,149	49,587,258	77,724,528
As of December 31, 2015	(71,327,156)	(802,003)	(2,473,971)	116,292,731	43,632,913	85,322,515

Undiscounted cash flows arising from the items of monetary assets and monetary liabilities include future cash flows per balance sheet items and future interest.

4.3. Market Risk

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

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

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

Interest rate risk represents the probability of negative effects on the Bank'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 Bank manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Bank is exposed due to changes in yield curve shape;
- Basis risk – to which the Bank 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 Bank 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 Bank manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Bank 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 Bank estimates the impact that could have standardized interest rate shock (parallel positive and negative shift of interest rates on the reference yield curve by 200 basis points) for each significant currency individually and for all other currencies together

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 Bank 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 Bank's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Bank to the interest rate risk and implementing measures for interest rate risk mitigation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

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

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Bank'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:

(000) RSD

	Limits	**2017**	**2016**
Relative GAP	Max 15%	2.18%	1.33%
Mismatch ratio	0.75 – 1.25	1.03	1.02

During 2017, interest rate risk indicators moved within internally defined limits.

In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.

(000) RSD

	2017	**2016**
As at December 31	3.65%	4.61%
Average for the year	3.86%	4.58%
Maximum for the year	4.49%	5.03%
Minimum for the year	3.03%	3.96%
Limit	**20%**	**20%**

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

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2017:

(000) 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	15,047,611	-	-	-	-	15,047,611	34,793,276	49,840,887
Loans and receivables due from banks and other financial institutions	24,532,121	3,818,116	169,243	33,819	-	28,553,299	990,490	29,543,789
Loans and receivables due from customers	45,939,381	12,171,594	33,502,849	50,835,801	10,972,279	153,421,904	475,463	153,897,367
Financial assets (securities)	4,674,127	13,952,906	19,654,355	78,671,309	336,070	117,288,767	-	117,288,767
Other assets	-	-	-	-	-	-	4,098,292	4,098,292
Total	**90,193,240**	**29,942,616**	**53,326,447**	**129,540,929**	**11,308,349**	**314,311,581**	**40,357,521**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,289,289	2,168,102	58,951	13,295	22,397	4,552,035	-19,530	4,532,505
Deposits and other liabilities due to customers	209,182,984	13,728,127	46,267,101	21,090,450	1,273,646	291,542,308	929,332	292,471,640
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	6,868,883	6,868,883
Total	**211,472,273**	**15,896,229**	**46,326,052**	**21,103,745**	**1,296,043**	**296,094,343**	**7,778,685**	**303,873,028**
Interest rate GAP:								
At December 31. 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**
At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.3.1. Interest Risk (continued)

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

(000) 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	20,295,058	-	-	-	-	20,295,058	34,858,151	55,153,209
Loans and receivables due from banks and other financial institutions	35,907,789	3,388,185	-	193,259	13,333	39,502,566	1,098,848	40,601,414
Loans and receivables due from customers	56,317,055	12,953,807	36,168,045	31,319,055	13,560,096	150,318,058	93,351	150,411,409
Financial assets (securities)	12,387,360	11,818,310	40,638,128	69,418,074	1,861,982	136,123,854	242,919	136,366,773
Other assets	-	-	-	-	-	-	3,192,817	3,192,817
Total	**124,907,262**	**28,160,302**	**76,806,173**	**100,930,388**	**15,435,411**	**346,239,536**	**39,486,086**	**385,725,622**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,481,677	4,048,224	1,265,781	16,051	23,227	7,834,962	-	7,834,962
Deposits and other liabilities due to customers	219,997,555	18,179,102	60,479,981	21,300,253	1,244,250	321,201,141	1,420,219	322,621,360
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,604,032	5,604,032
Total	**222,479,232**	**22,227,326**	**67,924,152**	**21,316,304**	**1,267,477**	**335,214,493**	**7,024,251**	**342,238,744**
Interest rate GAP								
-At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**
-At December 31, 2015	**(55,855,531)**	**18,627,271**	**(24,339,430)**	**57,696,895**	**13,686,001**	**9,815,107**	**37,624,664**	**47,439,771**

4. RISK MANAGEMENT (CONTINUED)

4.3.1. 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 Bank'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 Bank's assets and liabilities to different scenarios of changes in interest rates. The Bank performs regular interest rate risk stress testing to assess the estimated impact of the changes in the key factors on the Bank'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 Bank estimates based on historical trends and expert estimates. The Bank 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 Bank's sensitivity analysis, i.e. impact on the Bank'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:

(000) RSD

	Parallel increases by 100 b.p.	Parallel decreases by 100 b.p.
2017		
As at December 31	346,337	(346,337)
2016		
As at December 31	543,200	(543,200)

4.3.2. Currency Risk

The bank is exposed to foreign exchange risk, which manifests itself through the possibility of adverse effects on the financial result and capital due to the change in inter-currency relations, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. The foreign exchange risk is exposed to all positions contained in the banking book and trading book in foreign currency and gold, as well as RSD positions indexed by currency clause.

In order to minimize exposure to foreign exchange risk, the Bank performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking foreign currency risk from the process of its management. The primary role in the foreign exchange risk management process is performed by the competent committees within their competencies, whose decisions may influence the Bank's exposure to this risk.

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank, in a comprehensive manner, identifies timely the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and indicator of foreign currency risk;
- VaR;
- Stress test;
- backtesting.

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile through the setting of a system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and control of compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk during the day enabled the timely undertaking of measures in order to maintain foreign currency risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance compliance monitoring.

Foreign exchange risk reporting includes an internal and external reporting system and is carried out on a daily basis.

The Bank aligns its operations with the regulated foreign exchange risk limit, which represents the ratio of the open foreign currency position and gold and regulatory capital positions.

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

	2017	2016
Total currency risk balance	2,248,347	1,366,855
Currency risk ratio	4.40%	2.96%
Legally-defined limit	**20%**	**20%**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

Breakdown of Monetary Assets and Monetary Liabilities per currencies as of December 31, 2017

(000) 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	30,613,336	149,359	510,641	476,712	31,750,048	-	-	-	18,090,839	49,840,887
Loans and receivables due from banks and other financial institutions	6,471,500	2,901,236	2,696,013	2,187,682	14,256,431	-	-	-	15,287,358	29,543,789
Loans and receivables due from customers	11,565,610	-	-	-	11,565,610	95,727,011	-	4,011,996	42,592,750	153,897,367
Financial assets (securities)	70,944,119	9,062,663	1,782,330	-	81,789,112	332,778	-	-	35,166,877	117,288,767
Other assets	1,638,400	262,757	886	270	1,902,313	-	-	-	2,195,979	4,098,292
Total	**121,232,965**	**12,376,015**	**4,989,870**	**2,664,664**	**141,263,514**	**96,059,789**	**-**	**4,011,996**	**113,333,803**	**354,669,102**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,563,823	189,871	135,31	29,842	3,918,846	14,193	-	-	599,466	4,532,505
Deposits and other liabilities due to customers	211,143,575	10,753,027	8,623,783	2,533,382	233,053,767	203,045	18,890	-	59,195,938	292,471,640
Subordinated liabilities	-	-	-	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,337,660	1,026,547	84,513	12,923	2,461,643	8,921	-	-	4,398,319	6,868,883
Total	**216,045,058**	**11,969,445**	**8,843,606**	**2,576,147**	**239,434,256**	**226,159**	**18,890**	**-**	**64,193,723**	**303,873,028**
Net Currency Position, 31 December 2017	**(94,812,093)**	**406,570**	**(3,853,736)**	**88,517**	**(98,170,742)**	**95,833,630**	**(18,890)**	**4,011,996**	**49,140,080**	**50,796,074**

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

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

(000) 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	30,320,285	148,391	641,510	421,985	31,532,171	-	-	-	23,621,038	**55,153,209**
Loans and receivables due from banks and other financial institutions	9,277,053	2,539,540	2,770,321	1,977,720	16,564,634	-	-	-	24,036,779	**40,601,413**
Loans and receivables due from customers	9,151,906	28	-	-	9,151,934	100,525,385	-	4,983,042	35,751,048	**150,411,409**
Financial assets (securities)	81,213,474	9,346,992	1,818,930	-	92,379,396	431,303	-	-	43,556,074	**136,366,773**
Other assets	829,122	210,115	320	35	1,039,592	6	-	-	2,153,219	**3,192,817**
Total	**130,791,840**	**12,245,066**	**5,231,080**	**2,399,741**	**150,667,727**	**100,956,694**	**-**	**4,983,042**	**129,118,158**	**385,725,621**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,807,932	198,158	108,161	12,672	**7,126,923**	7,646	-	-	700,393	**7,834,962**
Deposits and other liabilities due to customers	216,383,033	10,870,036	10,135,682	2,266,886	**239,655,637**	319,995	22,325	-	82,623,404	**322,621,360**
Subordinated liabilities	6,186,827	-	-	-	**6,186,827**	**-**	-	-	-8,437	**6,178,390**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,161,729	545,298	47,482	13,996	**1,768,505**	-	-	-	3,835,527	**5,604,032**
Total	**230,539,521**	**11,613,492**	**10,291,325**	**2,293,553**	**254,737,891**	**327,641**	**22,325**	**-**	**87,150,886**	**342,238,744**
Net Currency Position, 31 December 2016	**(99,747,681)**	**631,574**	**(5,060,245)**	**106,188**	**(104,070,164)**	**100,629,053**	**(22,325)**	**4,983,042**	**41,967,272**	**43,486,877**

4. RISK MANAGEMENT (CONTINUED)

4.3.2. Currency Risk (continued)

Ten-Day VaR

The Bank 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 Bank's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Bank'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 Bank calculates the VaR by using the generalized autoregressive-conditional heteroskedastic model GARCH 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 2017 and 2016 is presented in the table below:

(000) RSD

	As of December 31	Average	Maximum	Minimum
2017				
Currency risk	27,581	28,80	54,272	15,905
2016				
Currency risk	15,565	28,025	78,636	9,782

4.4. Operational Risk

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

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

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

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

4. RISK MANAGEMENT (CONTINUED)

4.4. Operational Risk (continued)

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank 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 which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

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

The Bank 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 Bank 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 Bank's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank's organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank'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 Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank 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 Bank adopted the Disaster Recovery Plan.

4.5. The Bank's Investment Risks

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, whereby such investments entail investments through which the Bank acquires equity interest or shares in a non-financial sector entity. The total Bank's investment in non-financial sector entities and Bank's own fixed assets cannot exceed 60% of the Bank'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. RISK MANAGEMENT (CONTINUED)

4.6. Exposure Risk

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

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

- The Bank's exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

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

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

4.7. Country Risk

Country risk relates to the risk of the country of origin of the entity the Bank is exposed to, i.e. the possibility of negative effects on the Bank'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 Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;
- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

Management of country risk is made per individual loans and receivables and at the Bank's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Bank'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 Bank's equity, depending on the internal country rating category. The Bank 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 Bank defines exposure limits individually per borrower country of origin.

The Bank's loans approved to the borrowers domiciled outside of the Republic of Serbia for financing businesses in the Republic of Serbia, whose financial liabilities to the Bank are expected to be settled from the operating results achieved in the Republic of Serbia, represent the Bank's receivables without exposure to the risk of the borrower country of origin.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.8. Fair vaule of financial assets and liabilities

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

(000) RSD

	31.12.2017					31.12.2016	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	153,897,367	151,658,208	-	-	151,658,208	150,411,409	147655,809
Financial Liabilities							
Deposits and other liabilities due to customers	291,471,640	292,389,981			291,389,981	322,621,360	322,502,251

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 Bank 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 Bank's Business Policy.

4.8.2. Financial instruments measured at fair value

(000) RSD

31.12.2017	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	417,643	4,852,066	-	5,269,709
Securities available for sale (RSD)	-	33,137,523	-	33,137,523
Securities available for sale (FC)	-	78,548,757	332,778	78,881,535
Total	**417,643**	**116,538,346**	**332,778**	**117,288,767**

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	242,920	-	-	242,920
Securities available for sale (RSD)	-	43,313,154	-	43,313,154
Securities available for sale (FC)	-	92,379,396	431,303	92,810,699
Total	**242,920**	**135,692,550**	**431,303**	**136,366,773**

4. RISK MANAGEMENT (CONTINUED)

4.8.2. Financial instruments measured at fair value (continued)

Level 1 shares are traded on the stock exchange, while Level 2 contains securities of which the fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).

The fair value of assets which are not actively traded is classified into level 3.

4.9. Capital Management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual protective layers of capital;
- respect of the minimum regulatory capital adequacy ratios increased for the combined protection layer of capital;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank’s regulatory capital represents the sum of the share capital (composed of the basic share capital and the additional share capital) and the supplementary capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, basic or basic share) of the Bank and collections: risk weighted exposure to credit risk, counterparty risk, risk of decreased value of purchased receivables and risk of settlement / delivery on free delivery, settlement / delivery risk except on the basis of free delivery), market risks (including foreign exchange and price risk), operational risk and other risks from Pillar I. The risk weighted exposure to credit risk, the counterparty risk, the risk of a decrease in the value of the purchased receivables and the risk of settlement / delivery on the basis of free delivery are determined in accordance with the prescribed risk weight for all classes of assets. Risk assets based on exposure to operational risk are obtained by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (CONTINUED)

4.9. Capital Management (continued)

Capital adequacy ratio		(000) RSD
	31.12.2017	31.12.2016
Share Capital	55,122,806	44,667,035
Basic Share Capital	54,749,296	-
Additional Share Capital	373,510	-
Supplementary Capital	-	4,175,529
Deductible items	(3,992,144)	(2,611,859)
Capital	**51,130,662**	**46,230,705**
Credit risk-weighted assets	146,903,022	147,355,392
Operational risk exposure	31,680,737	21,710,322
Foreign currency risk exposure	4,761,814	2,338,631
Capital adequacy ratio (min. 14,40%)	**27.89%**	**26.97%**
Share capital adequacy ratio (мin. 12,40%)	**27.89%**	**-**
Basic share capital adequacy ratio (min. 10,90%)	**27.68%**	**-**

Note: Data for December 31, 2017 and 2016 are not comparable since the regulatory framework has been changed during 2017.

During 2017, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital protection, 6% + combined protection layer of capital and 4.5% + combined protection layer of capital for indicators of the adequacy of total, basic and basic equity capital respectively).

Through its Capital Management Strategy and Capital Management Plan, the Bank 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.

During 2017, the Bank also calculated the leverage indicator in accordance with the regulatory requirement, which represents the ratio of the share capital and the amount of exposure that are included in the calculation of the indicator.
The Capital Management Plan, as part of the capital management system, includes:

- strategic goals and the period for their realization;
- a description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- procedures for planning an adequate level of available internal capital;
- the way to reach and maintain an adequate level of available internal capital;
- restrictions on available internal capital;
- demonstrating and explaining the effects of stress testing on internal capital requirements;
- allocation of capital;
- business plan in case of occurrence of unforeseen events.

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

4. RISK MANAGEMENT (CONTINUED)

4.9. Capital Management (continued)

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement,
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed,
- provides an adequate level of available internal capital in accordance with the risk profile of the Bank,
- is involved in the Bank's management system and decision-making,
- subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- calculation of the amount of internal capital requirements for individual risks;
- determining the total internal capital requirement;
- comparing the following elements
  - capital and available internal capital;
  - minimum capital requirements and internal capital requirements for individual risks;
  - collecting minimum capital requirements and total internal capital requirements.

5. USE OF ESTIMATES

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

Key Sources of Estimation Uncertainty

Provisions for Credit Losses

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

A part of the impairment provision relating to counterparty risk relates to financial assets that are individually assessed and based on the best estimate of the management of the present value of future cash flows whose inflow is expected. When estimating these cash flows, the management makes estimates of the financial position of the other counterparty and the net sales value of the present collateral. For each impaired asset, its value, as well as the exit strategy, is assessed, where the credit risk function independently approves the estimation of cash flows that are considered to be recoverable.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans 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

5. USE OF ESTIMATES (CONTINUED)

Key Sources of Estimation Uncertainty (continued)

Provisions for Credit Losses (continued)

allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining Fair Values

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

Critical Accounting Judgments in Applying the Bank's Accounting Policies

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

Impairment of Investments in Equity Shares

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

Valuation of Financial Instruments

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

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

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

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

5. USE OF ESTIMATES (CONTINUED)

Critical Accounting Judgments in Applying the Bank's Accounting Policies (continued)

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 Bank 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

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

When considering profitability / results of each segment, besides income and expenses generated from business with clients, income and expenses from internal relations calculated using transfer prices that are determined based on market price (net income/expenses from internal relations), are included.

A decisive impact on the result in 2017 had indirect impairment income which amounted to RSD 17,883 thousand (of which the collected impaired receivables amounted to RSD 738,594 thousand). Also, the amount of the results, besides the net income of indirect impairments, was also affected by the court litigation in the amount of 562,745 thousand RSD.

6. SEGMENT REPORTING (CONTINUED)

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the 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 7,639,242 thousand and make up 70.5% 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 5,783,836 thousand of direct costs (75.7% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2017, the Bank realized pre-tax profit in the amount of RSD 7,187,250 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (CONTINUED)

Operating segments report for 2017 is provided below:

(000) RSD

	Retail Banking*	Corporate Banking	Invesment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,367,966	2,649,990	5,034,480	-	14,052,436
Interest expenses	(880,868)	(224,091)	(501,280)	-	(1,606,239)
Net interest income	5,487,098	2,425,899	4,533,200	-	12,446,197
Net income/expenses from related party transactions	(886,255)	(768,155)	1,654,410	-	-
Net fee and commission income	3,198,742	1,290,502	592,982	-	5,082,226
Profit before impairment allowance	**7,799,585**	**2,948,246**	**6,780,592**	**-**	**17,528,423**
Net gains/losses from impairment allowance	(310,881)	266,53	62,234	-	17,883
Profit before operating expenses	**7,488,704**	**3,214,776**	**6,842,826**	**-**	**17,546,306**
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(7,639,242)
Net foreign exchange gains/losses	-	-	(56,358)	-	(56,358)
Net other income and expenses	(82,584)	557,765	55,202	-	530,383
Profit before indirect operating expenses	**1,622,284**	**2,099,822**	**6,658,983**	**-**	**10,381,089**
Indirect operating expenses**	(1,612,287)	(1,237,636)	(343,916)	-	(3,193,839)
Profit before tax	**9,997**	**862,186**	**6,315,067**	**-**	**7,187,250**

** Loans to micro clients are presented within Retail banking segment*

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (CONTINUED)

Operating segments report for 2017 is provided below:

	Retail Banking*	Corporate Banking	Invesment and Interbank operations	Other	Total
Assets per segment					
Cash and cash funds held with the central bank	-	-	49,840,887	-	49,840,887
Loans and receivables due from banks and other financial institutions	-	-	29,543,789	-	29,543,789
Loans and receivables due from customers	81,512,171	72,385,196	-	-	153,897,367
Investment securities	-	-	117,288,767	-	117,288,767
Other	-	-	2,611,859	16,000,869	18,612,728
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**369,183,538**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	4,532,505	-	4,532,505
Deposits and other liabilities due to customers	230,900,337	52,610,572	8,960,731	-	292,471,640
Subordinated liabilities	-	-	-	-	-
Other	-	-	-	8,919,338	8,919,338
	230,900,337	**52,610,572**	**13,493,236**	**8,919,338**	**305,923,483**

* *Loans to micro clients are presented within Retail banking segment*

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (CONTINUED)

Operating segments report for 2016 is provided below:

(000) RSD

	Retail banking*	Corporate banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,622,978	3,806,948	6,259,149	-	16,689,075
Interest expenses	(1,680,595)	(409,129)	(1,136,617)	-	(3,226,341)
Net interest income	4,942,383	3,397,819	5,122,532	-	13,462,734
Net income/expenses from related party transctions	(434,154)	(1,166,544)	1,600,698	-	-
Net fee and commission income	3,040,383	1,335,521	441,410	-	4,817,314
Profit before impairment allowance	**7,548,612**	**3,566,796**	**7,164,640**	**-**	**18,280,048**
Net gains/losses from impairment allowance	(858,376)	(11,021,735)	(3,027,428)	-	(14,907,539)
Profit before operating expenses	**6,690,236**	**(7,454,939)**	**4,137,212**	**-**	**3,372,509**
Direct operating expenses	(5,250,911)	(1,841,981)	(292,810)	-	(7,385,702)
Net foreign exchange gains/losses	-	-	(9,282)	-	(9,282)
Net other income and expenses	(18,075)	(555,513)	(80,417)	-	(654,005)
Profit before indirect operating expenses	**1,421,250**	**(9,852,433)**	**3,754,703**	**-**	**(4,676,480)**
Indirect operating expenses**	(2,020,778)	(1,340,184)	(340,194)	-	(3,701,156)
Profit before tax	**(599,528)**	**(11,192,617)**	**(3,414,509)**	**-**	**(8,377,636)**
Assets per segment					
Cash and cash funds held with the central bank	-	-	55,153,209,	-	55,153,209
Loans and receivables due from banks and other financial institutions	-	-	40,601,413	-	40,601,413
Loans and receivables due from customers	75,323,551	75,087,858	-	-	150,411,409
Investment securities	-	-	136,366,773	-	136,366,773
Other	-	-	2,611,859	14,872,806	17,484,665
	75,323,551	**75,087,858**	**234,733,254**	**14,872,806**	**400,017,469**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	7,834,962	-	7,834,962
Deposits and other liabilities due to customers	232,633,347	78,399,262	11,588,751	-	322,621,360
Subordinated liabilities	-	-	6,178,390	-	6,178,390
Other	-	-	-	7,958,455	7,958,455
	232,633,347	**78,399,262**	**25,602,103**	**7,958,455**	**344,593,167**

* 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:

(i) 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.

(ii) Fixed rate financial instruments

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

8. NET INTEREST INCOME

Net interest income includes:

		(000) RSD
	Year ended 31 December	
	2017	**2016**
Loans and receivables due from banks	302,541	379,351
Loans and receivables due from customers	9,017,954	10,430,418
Central bank	371,056	475,643
Investment securities	4,360,885	5,403,663
Total interest income	**14,052,436**	**16,689,075**
Deposits from and liabilities due to banks and other financial institutions	102,577	266,437
Deposits from and liabilities due to customers	1,112,608	2,206,177
Borrowings received	391,054	753,727
Total interest expenses	**1,606,239**	**3,226,341**
Net interest income	**12,446,197**	**13,462,734**

8. NET INTEREST INCOME (CONTINUED)

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

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	(000) RSD	
	Year ended 31 December	
	2017	**2016**
Fees and commission income in domestic currency		
Payment transfer operations	3,243,428	3,050,088
Fees on issued loans and guarantees - retail customers	28,845	27,006
Fees on issued loans and guarantees - corporate customers	152,973	183,068
Fees on purchase and sale of foreign currencies	455,964	453,082
Brokerage and custody fees	37,390	63,605
Fees arising from card operations	1,795,591	1,540,404
Credit Bureau processing fees	87,771	88,011
Other banking services	544,317	603,584
	6,346,279	**6,008,848**
Fees and commission income in foreign currencies		
Payment transfer operations	109,763	102,541
Fees on issued loans and guarantees - corporate customers	9,250	4,884
Brokerage and custody fees	12,778	9,011
Fees arising from card operations	221,473	127,036
Other banking services	673	50
	353,937	**243,522**
	6,700,216	**6,252,370**

9. NET FEE AND COMMISSION INCOME (CONTINUED)

Fee and commission expenses in domestic currency		
Payment transfer operations	125,732	121,816
Fees arising on purchase and sale of foreign currencies	64,340	33,396
Fees arising from card operations	770,319	520,990
Credit Bureau processing fees	78,149	72,978
Other banking services	139,701	149,251
	1,178,241	**898,431**
Fee and commission expenses in foreign currencies		
Payment transfer operations	72,877	63,302
Fees arising from card operations	329,074	290,972
Other banking services	37,798	182,351
	439,749	**536,625**
	1,617,990	**1,435,056**
Net fee and commission income	**5,082,226**	**4,817,314**

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

		(000) RSD
	Year ended 31 December	
	2017	**2016**
Gains on the fair value adjustment of securities – bonds	12,643	2,920
Gains on the fair value adjustment of securities – investment units	51,739	-
Gains on the fair value adjustment of securities – shares	47,261	70,138
Gains on the sales of securities at fair value through profit and loss		
	111,643	**73,058**
Losses on the fair value adjustment of securities – shares	(7,845)	
Losses on the fair value adjustment of securities – bonds	-	(2,580)
Losses on the fair value adjustment of securities – investment units		
	(7,845)	**(2,580)**
Losses on the sales of securities and other financial assets held for trading		
Net gains on the financial assets held for trading	**103,798**	**70,478**

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

Net gains on the financial assets available for sale include:

		(000) RSD
	Year ended 31 December	
	2017	2016
Gains on the sale of securities available for sale	44,534	69,927
Losses on the sale of securities available for sale	(211)	(865)
Net gains on the financial assets available for sale	**44,323**	**69,062**

Gains on the sale of securities available for sale in the amount of RSD 44,534 thousand relate to gains from the sale of bonds of the Republic of Serbia in RSD in the amount of RSD 44,081 thousand and foreign currency in the amount of RSD 453 thousand.

Losses on securities available for sale in the amount of RSD 211 thousand relate to losses from the sale of bonds of the Republic of Serbia in RSD.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

		(000) RSD
	Year ended 31 December	
	2017	2016
Positive currency clause effects	1,325,087	2,510,561
Positive currency clause effects – value adjustment of securities	7,533	13,227
Foreign exchange gains – value adjustment of liabilities	17,989	13,173
Positive currency clause effects – retail customers	427,235	1,281,370
Foreign exchange gains	12,598,243	2,343,797
	14,376,087	**6,162,128**
Negative currency clause effects	(3,575,513)	(1,437,016)
Negative currency clause effects – value adjustment of securities	(24,147)	(5,290)
Negative currency clause effects – value adjustment of liabilities	(4,170)	(37,809)
Negative currency clause effects – retail customers	(2,546,402)	(616,606)
Foreign exchange losses	(8,282,213)	(4,074,689)
	(14,432,445)	**(6,171,410)**
Net expense	**(56,358)**	**(9,282)**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

13. OTHER OPERATING INCOME

a) Other operating income relates to:

	(000) RSD Year ended 31 December 2017	2016
Other income from operations	174,837	156,919
Revenues from the abolition of unused provisions. by lawsuits (Note35)	25,426	-
Other income	737,514	383,901
Gains on the valuation of property and equipment	-	32,415
Total	**937,777**	**573,235**

Within the operating income position, the largest amounts relate to: fees for renting real estate in the country in the amount of RSD 101,238 thousand (of which RSD 76,908 thousand relates to income from renting real estate for business purposes), income per based on the refund of communal expenses in the amount of RSD 31,545 thousand, revenues from the refund of other costs in the amount of RSD 15,154 thousand, income from pre-paid costs of court proceedings upon the judgments received in the amount of RSD 19,248 thousand and income from the lease of office space abroad 5,553 thousand.

During 2017, the Bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 9,137 thousand (2016: RSD 15,712 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 5,318 thousand, AIK Bank in the amount of RSD 2.941 thousand and MasterCard in the amount of RSD 878 thousand.

Within the position of other revenues in 2017, the most significant items are revenues:

- On the basis of the won court dispute based on the final judgment of the Supreme Court of Cassation in the amount of RSD 566,450 thousand
- The termination of liabilities in the amount of RSD 64,376 thousand based on the income of materially insignificant liabilities on the basis of inactive parties of current, dinar and foreign currency accounts of natural persons who in the course of 2017 fulfilled the conditions prescribed by the decision of the Executive Board of the Bank. In the event of a subsequent withdrawal of the client for the outgoing debtor, the same will be made against the expense of the Bank's expense.
- Income from sale of non-current assets acquired by collecting receivables in the amount of RSD 29,548 thousand
- Revenue from lease from previous years based on the arrival of payments from 2015 and 2016 in the amount of RSD 19,847 thousand
- Based on interest from the early years - population in the amount of RSD 16,160 thousand
- Based on interest from the early years - economy in the amount of RSD 12,231 thousand.

b) Net gains on investments

	(000) RSD Year ended 31 December 2017.	2016.
Gains on sales of Jubmes bank shares	306	5,143
Total	**306**	**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:

	(000) RSD	
	Year ended 31 December	
	2017	2016
Impairment allowance of loans and receivables	(11,106,990)	(25,447,320)
Provisions for off-balance sheet items	(276,066)	(522,126)
Reversal of impairment allowance of loans and receivables	10,340,416	10,372,904
Reversal of provisions for off-balance sheet items	321,929	631,308
Income from collection of receivables previously written-off	738,594	57,695
Total	**17,883**	**(14,907,539)**

Within the expenses on impairment of balance sheet items, the Bank has also recorded impairment of foreclosed assets acquired through collection of receivables in the amount of RSD 169,674 thousand (Note 30), based on the valuation of the property and equipment by the authorized appraiser, in accordance with the Bank's internal act.

During 2017, the collected receivables in the amount of RSD 738,594 thousand mostly relate to collecting receivables from the off-balance sheet for which the previously permanent write-off from the balance sheet to the off-balance sheet was performed. The most significant amounts of payment are related to: Concern Farmakom MB doo in bankruptcy in the amount of RSD 246,416 thousand , IMK 14, Oktobar Krusevac in the amount of RSD 246,913 thousand, HI Zupa ad Krusevac in the amount of RSD 23,458 thousand, Gemax doo Belgrade in bankruptcy in the amount of RSD 21,011 thousand and Beohemija doo in the amount of RSD 15,140 thousand.

By the end of January 2018, material impairments of impaired placements were not carried out, which would have the effect of eliminating the impairment in accordance with the requirements of IAS 10.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

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

(000) RSD

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investmet securities (Notes 21 и 22)	Investment in subsidiaries (Note 25)	Other assets (Note 30)	Off-balance sheet liabilities (Note 35)	Total
Balance as of January 1, 2017	**309,874**	**29,645,005**	**165,879**	**2,869,029**	**2,532,688**	**430,941**	**35,953,416**
New impairment allowance	-	10,592,617	29,813	-	484,560	276,066	11,383,056
Decrease in impirment allowance	(60,561)	(10,123,228)	(27,211)	-	(129,416)	(321,929)	(10,662,345)
Foreign exchange effects	(46,755)	(772,235)	(3,523)	-	(10,726)	-	(833,239)
Permanent write-off	-	(12,089,069)	(164,955)	-	(19,098)	-	(12,273,122)
Other movements		781,509*	-		(401,145)	(260,686)	119,678
Balance as of December 31, 2017	**202,558**	**18,034,599**	**3**	**2,869,029**	**2,456,863**	**124,392**	**23,687,444**

*Use of alternative methods IRC method refers to the netting of interest income and expense on impairment allowances

In 2017, the Bank made an increase in the net expense of impairment and provisioning in the total amount of RSD 720,711 thousand.

Of the other changes in the accounts of value adjustments and provisions, the amount of RSD 12,273,122 thousand relates to the permanent write-off performed by the Bank in 2017 by transfer from balance sheet to off-balance sheet on the basis of the NBS Decision on accounting write-off of balance sheet assets

15. STAFF COSTS

Staff costs include:

(000) RSD

	Year ended 31 December 2017	2016
Net salaries	2,733,546	2,703,672
Net benefits	435,931	444,472
Payroll taxes	402,439	395,782
Payroll contributions	830,100	800,724
Considerations paid to seasonal and temporary staff	11,587	13,934
Provisions for retirement benefits – net (Note 35)	33,809	64,866
Other staff costs	72,785	74,762
Total	**4,520,197**	**4,498,212**

16. DEPRECIATION/AMORTIZATION CHARGE

	(000) RSD Year ended 31 December 2017	2016
Amortization charge – intangible assets (Note 26.2)	143,181	203,330
Depreciation charge – property and equipment (Note 27.2)	379,746	409,824
Depreciation charge – investment property (Note 28.1)	40,655	52,871
Total	**563,582**	**666,025**

17. OTHER EXPENSES

Other expenses include:

	(000) RSD Year ended 31 December 2017	2016
Cost of materials	367,932	348,681
Cost of production services	2,033,338	2,067,603
Non-material costs (without taxes and contributions)	2,475,068	2,690,370
Taxes payable	129,512	125,828
Contributions payable	751,661	729,322
Other costs	25,600	25,683
Other expenses	262,117	305,835
Losses on the valuation of property and equipment, investment property and intangible assets (Note 28 and 29)	86,708	632,721
Provisions for litigations (Note 35)	173,187	368,501
Total	**6,305,123**	**7,294,544**

a) Other expenses

Within the position of other expenditures in the amount of RSD 262,117 thousand, among others are recorded:

- expenditures on the basis of outflow of funds for seven lost court disputes in the amount of RSD 61,503 thousand for which the Bank did not incurred a provision too badly, or the amount from the final judgment was higher than the previously reserved amount.
- expenditures based on paid invoices to the insurance company for life insurance policies of clients valued for the Bank in the amount of RSD111,554 thousand, and whose payment was taken over by the Bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenditures by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 50,913 thousand are shown in this position, and

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

17. OTHER EXPENSES (CONTINUED)

- losses from depreciation and write-off of fixed assets and intangible investments in the amount of RSD 5,409 thousand

b) Provision for litigations

Expenses related to provisions for litigation in the total amount of RSD 173,187 thousand (Note 35) relate to:

- increase of expenses for eight new cases - claims in the amount of RSD 105,749 thousand and
- net increase in expenses for active items from previous years in the amount of RSD 42,012 thousand.

18. INCOME TAXES

18.1 Components of income taxes as of December 31 were as follows:

	(000) RSD Year ended 31 December 2017	2016
Deferred income tax benefits	1,335,828	314,453
Deferred income tax expenses	(405,710)	-
Total	**930,118**	**314,453**

During 2017, on the basis of the conducted analysis and estimates, gains arising from the creation of deferred tax assets from transferred tax losses were recognized, to the extent that it is certain that it will be used, ie in the amount of RSD 1,235,813 thousand. Of this amount for covering the taxable profit for RSD 2017, 368,667 thousand were utilized in the amount of deferred tax losses.

In 2017 and 2016, the Bank did not disclose current income tax on the basis of current tax regulations.

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

(000) RSD

	2017	2017	2016	2016
Profit for the year before taxes		7,187,250		(8,377,636)
Tax calculated using the local income tax rate	15%	1,078,087	-15%	(1,256,645)
Expenses not recognized for tax purposes	-0.41%	(29,449)	7.82%	655,221
Tax effects of the net capital losses /gains	-0.01%	(562)	-0.07%	(6,169)
Tax effects of income reconciliation	0.03%	1,868	-0.12%	(9,686)
Tax credit received and used in the current year	-5.13%	(368.666)	0.07%	6,169
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-9.48%	(681,278)	-10.11%	(846,851)
Tax effect adjustments (used and new ones)	-12.94%	(930,118)	-3.75%	(31,453)
Tax effects stated within the income statement		**930,118**		**314,453**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAXES (CONTINUED)

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

	Year ended 31 December 2017	(000) RSD 2016
Balance as of January 1	**(23,592)**	(329,258)
Occurrence and reversal of temporary differences	880,688	305,666
Balance as of December 31	**857,096**	**(23,592)**

18.4 Current tax assets:

	31 December 2017	(000) RSD 31 December 2016
Current tax assets (paying a monthly installment income tax for 2017 according to the Income Tax law)	-	-

During 2017, the Bank did not pay income tax, as in 2016 it reported a tax loss.

18.5.1. Deferred tax assets and liabilities

Deferred tax assets and liabilities relate to:

(000) RSD

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assetsfor tax and financial reporting purposes	112,277	-	112,277	77,473	-	77,473
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	867,146	-	867,146	-	-	-
Long-term provisions forretirement benefits	624	(530,171)	(529,547)	899	(566,448)	(565,549)
Impairment of assets	35,322	-	35,322	41,978	-	41,978
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	265,532	-	265,532	284,297	-	284,297
Provisions for litigations						
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	1,192	-	1,192	1,134	-	1,134
	118,797	-	118,797	137,075	-	137,075
Total	-	(13,623)	(13,623)	-	-	-
Total	**1,400,890**	**(543,794)**	**857,096**	**542,856**	**(566,448)**	**(23,592)**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAXES (CONTINUED)

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

(000) RSD

Type of tax credit	Year	Amount as of 31.12.2017	Amount as of 31.12.2016	Expiration date for use
	2014	-	388,385	2019
	2015	2,533,717	10,384,084	2020
Tax losses carried forward	2016	9,719,742	9,719,742	2021
Total tax losses carried forward		**12,253,459**	**20,492,211**	
Impact of tax losses on future income tax (15%)		1,838,019	**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	13,154	13,154	2019
Total tax credits for future income tax liabilities		**1,866,865**	**3,102,678**	

The transfer of tax losses that are not recorded in the Bank's books and on the basis of which no tax assets have been formed and can be used to cover the tax on profits in the following periods amount to a total of RSD 12,253,459 thousand and relate to the tax loss realized in 2015-2016. year.

Deferred tax assets were not formed for tax credits on the basis of investments in fixed assets in the amount of RSD 15,692 thousand, nor on the basis of tax credits for intercompany dividends in the amount of RSD 13,154 thousand.

Tax credits on which no deferred tax assets were formed in 2017 were reduced in relation to 2016, due to their recognition to the extent that it is certain that they will be used, in accordance with IAS 12 (note note 18.1).

18.5.3 Movements in temporary difference durin 2017 and 2016 are shown as follows:

(000) RSD

2017	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Tax losses carried forward	-	867,146	-	-	867,146
Impairment of assets	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Actarial gains / (losses)	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Assets based on the payment of other employee liabilities	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAXES (CONTINUED)

18.5.3 Movements in temporary difference during 2017 and 2016 are shown as follows (continued):

(000) RSD

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)**

18.6 Tax effects relating to Other comprehensive income

(000) RSD

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	(241,847)	36,277	(205,570)	364,619	(54,693)	309,926
Net decrease due to actual losses	24,648	(23,517)	1,131	(3,626)	544	(3,082)
Valuation of property	-	(61,917)	(61,917)	58,580	(3,073)	55,507
Decrease due to fair value adjustments of equity investments and securities available for sale	1,823	(274)	1,549	262,184	(39,327)	222,857
Total	**(215,376)**	**(49,431)**	**(264,807)**	**681,757**	**(96,549)**	**585,208**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

		(000) RSD
	31 December 2017	**31 December 2016**
In RSD		
Cash on hand	3,043,314	3,325,905
Gyro account	15,047,427	20,295,034
Other RSD cash funds	99	100
	18,090,840	**23,621,039**
In foreign currencies		
Cash on hand	3,875,812	3,092,751
Gyro account	27,874,051	28,439,396
Other cash funds	184	23
	31,750,047	**31,532,170**
Total	**49,840,887**	**55,153,209**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	4,348,062	8,231,797
Foreign currency obligatory reserves	(27,874,051)	(28,439,396)
	(23,525,989)	**(20,207,599)**
Cash and cash equivalents reported in statement of cash flows	**26,314,898**	**34,945,610**

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.75% annually.

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in

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

the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015. (Official Gazzete 102/2015), the ratesapplied 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
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied.

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the country of the currency.

Other foreign currency cash in the amount of RSD 184 thousand (2016: RSD 23 thousand) relate to account calculations with the Central Registry of securities for Trade with securities.

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

Financial assets held for trading comprise:

	31 December 2017	(000) RSD 31 December 2016
Securities held for trading (in RSD)	2,029,354	242,920
Securities held for trading (in foreign currencies)	3,240,355	-
Total (Note 4.1.6)	**5,269,709**	**242,920**

Breakdown of financial assets held for trading is provided below:

	31 December 2017	(000) RSD 31 December 2016
Republic of Serbia bonds (in RSD)	1,611,711	-
Investment units of OIF monetary fund (in RSD)	417,643	242,920
Republic of Serbia bonds (in foreign currencies)	3,240,355	-
Total	**5,269,709**	**242,920**

Investment units as at December 31, 2017 in the total amount of RSD 417,643 thousand refer to investment units KomBank Monetary Fund, Belgrade.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

	31 December 2017	(000) RSD 31 December 2016
Securities available for sale (in RSD)	33,470,304	43,826,167
Securities available for sale (in foreign currencies)	78,548,757	92,379,396
Total (Notes 4.1.6)	112,019,061	136,205,563
Impairment allowance of securities available for sale	(3)	(81,710)
Total	**112,019,058**	**136,123,853**

Securities available for sale (in RSD) as of December 31, 2017 relate to bonds of the Republic of Serbia in the amount of RSD 33,137,523 thousand (2016: RSD 33,905,659 thousand), bonds - the budget of the City of Pančevo and the municipalities of Stara Pazova and Šabac in in the amount of RSD 332,781 thousand (2016: RSD 431,302 thousand).

Impairment allowance entirety relates to bonds of local governments.

Securities available for sale (in foreign currency) as at 31 December 2017 relate to long-term government bonds in the amount of RSD 76,766,427 thousand (2016: RSD 85,773,869 thousand) of foreign banks' bonds Raiffeisen Bank International in the amount of RSD 1,782,330 thousand (2016: RSD 1,818,930 thousand).

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

Impairment allowance of securities available for sale	31 December 2017	(000) RSD 31 December 2016
Individual impairment allowance		
Balance at January 1	81,710	370
Current year impairment allowance:		
Change for the year (Note 14)	29,813	81,230
Effects of the changes in foreign exchange rates (Note 14)	(3,523)	115
Reversal (Note 14)	(27,211)	(5)
Permanent write-off	(80,786)	-
Total individual impairment allowance	**3**	**81,710**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

	31 December 2017	(000) RSD 31 December 2016
Securities held to maturity (discounted bills of exchange) (note 4.1.6)	-	84,169
Impairment allowance of securities held to maturity	-	(84,169)
Total	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

22. FINANCIAL ASSETS HELD TO MATURITY

Impairment allowance of securities held to maturity

		(000) RSD
	31 December 2017	**31 December 2016**
Balance as of January 1	84,169	97,669
Impairment allowance for the year:		
Charge for the year (Note 14)	-	936
Reversal (Note14)	-	(936)
Total Collective Allowance	(84,169)	(13,500)
Total Individual and Collective Allowance	**-**	**84,169**

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

23.1 Loans and receivables due from banks include:

		(000) RSD
	31 December 2017	**31 December 2016**
RSD loans and receivables		
Per repo transactions	15,000,000	20,000,000
Loans for working capital	200,000	3,000,000
Overnight loans	-	1,000,000
Other receivables	68,549	14,580
Prepayments	18,809	22,199
	15,287,358	**24,036,779**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	4,348,062	8,231,797
Overnight loans	2,144,357	585,677
Other loans and receivables due from foreign banks	665,877	641,235
Foreign currency deposits placed with other banks	5,905,905	6,177,432
Prepayments	2,114	2,290
Other receivables	12,657	8,824
Loans to foreign banks (subsidiaries)	490,815	176,389
Secured foreign currency warranties	889,202	1,050,864
Impairment allowance	(202,558)	(309,874)
	14,256,431	**16,564,634**
Total	**29,543,789**	**40,601,413**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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

As at 31 December 2017, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 15,000,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 2.55% to 3.00%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 2.40% to 3.10% per annum. Short-term time deposits with foreign currency banks were deposited for a period of up to one year with an interest rate ranging from 0.10% to 0.25% per annum, from 0.30% to 1.25% for USD and 0.13% to 0.40% for CHF.

Interest rates on long-term revolving loans to foreign subsidiaries ranged from 2.478% to 2.559% representing 6M EURIBOR plus a fixed portion of 2.75%. Long-term loans to dependent banks were placed at the rate of 4.092% and 1M EURIBOR plus fixed portion 4.46%

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	**2017**	**2016**
Balance at January 1	309,874	399,760
Current year impairment allowance:		
Charge for the year (note 14)	-	-
Effects of the changes in foreign exchange rates (note 14)	(46,755)	15,577
Written off	-	(105,463)
Reversal (note 14)	(60,561)	-
Balance at December 31	**202,558**	**309,874**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

(000) RSD

	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	545,794	(15,523)	530,271	599,731	(77,830)	521,901
Working capital loans	36,079,514	(6,876,228)	29,203,286	43,540,645	(8,036,684)	35,503,961
Export loans	59,381	-	59,381	2,171,791	(2,039,330)	132,461
Investment loans	26,874,796	(2,257,470)	24,617,326	27,338,065	(3,676,973)	23,661,092
Purchased loans and receivables - factoring	-	-	-	298,788	(807)	297,981
Loans for payments of imported goods and services	2,109,314	(18,892)	2,090,422	2,306,016	(2,097,996)	208,020
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	416,502	-261,893	154,609	479,893	(297,408)	182,485
Other loans and receivables	37,994,559	(7,093,888)	30,900,671	38,179,610	(10,567,868)	27,611,742
Prepayments	138,848	(24,290)	114,558	223,015	(127,098)	95,917
Accruals	(139,210)	-	(139,210)	(190,394)	-	(190,394)
	104,079,498	**(16,548,184)**	**87,531,314**	**114,947,160**	**(26,921,994)**	**88,025,166**
Retail customers						
Transaction account overdrafts	3,795,909	(422,347)	3,373,562	3,922,335	(649,424)	3,272,911
Housing loans	37,546,956	(586,966)	36,959,990	39,297,529	(963,039)	38,334,490
Cash loans	24,712,127	(389,565)	24,322,562	19,954,272	(904,510)	19,049,762
Consumer loans	126,019	(2,712)	123,307	160,58	(42,266)	118,314
Other loans and receivables	2,014,181	(81,801)	1,932,380	2,113,275	(160,734)	1,952,541
Prepayments	218,284	(3,024)	215,260	207,135	(3,038)	204,097
Accruals	(561,008)	-	(561,008)	(545,872)	-	(545,872)
	67,852,468	**(1,486,415)**	**66,366,053**	**65,109,254**	**(2,723,011)**	**62,386,243**
Balnce as of December 31	**171,931,966**	**(18,034,599)**	**153,897,367**	**180,056,414**	**(29,645,005)**	**150,411,409**

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:

		(000) RSD
	31 December 2017	31 December 2016
Individual impairment allowance		
Balance as at January 1	28,219,164	35,020,153
Current year impairment allowance:		
Charge for the year (note 14)	6,427,100	11,070,613
Reclassified from group to individual impairment allowance	194,318	(3,253,505)
Effects of the changes in foreign exchange rates (note 14)	(381,063)	104,278
Reversal (note 14)	(5,617,811)	(2,944,495)
Written off	(11,811,840)	(11,816,533)
Other (note 14)	2,014	38,653
Total individual impairment allowance	**17,031,882**	**28,219,164**
Group impairment allowance		
Balance as at January 1	1,425,841	1,263,854
Current year impairment allowance:		
Charge for the year	4,165,517	10,310,276
Reclassified from group to individual impairment allowance	(194,318)	3,253,505
Effects of the changes in foreign exchange rates(note 14)	(391,172)	348,933
Reversal (note 14)	(4,505,417)	(7,242,240)
Written off (note 14)	(277,229)	(7,095,673)
Other (note 14)	779,495	587,186
Total group impairment allowance	**1,002,717**	**1,425,841**
Balance as of December 31	**18,034,599**	**29,645,005**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (CONTINUED)

Loans and receivables due from retail customers

During 2017, short-term and long-term loans to households in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 3.50% to 18.50% per annum.

Short-term loans to households in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.80% to 10.95% annually.

Long-term loans to households in foreign currency are approved for the period from thirteen to thirty-sixteen months with nominal interest rates ranging from 2.00% to 10.45% annually.

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.64% to 15.00% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.30% to 7.92% annually. Long-term loans in RSD were approved for a period from thirteen months to thirty months with an interest rate from 2.40% to 8.50%. on an annual basis. Long-term loans in foreign currency are approved for a period up to ninety months with an interest rate of EUR from 1.25% to 5.95% per annum.

Risks and Uncertainties

The Bank's management made a provision for potential credit losses based on all known and foreseeable risks at the date of preparation of the financial statements. The classification of credit portfolio receivables was made on the basis of the latest relevant available financial information, as well as on the expected effects of the restructuring process. If these effects do not result in the possibility of settling liabilities towards the Bank, the Bank's claims are mostly provided by mortgages on the immovable property of the debtor, as well as the pledge on movable property. In the event that these activities undertaken by the management of the Bank do not give the expected results, in the subsequent reporting periods it will be necessary to allocate additional provisions for possible losses based on the assessment of non-recoverability.

25. INVESTMENTS IN SUBSIDIARIES

	December 31, 2017	December 31, 2016
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Budva	2,366,273	2,366,273
Impairment allowance	(2,869,029)	(2,869,029)
Total	**2,611,859**	**2,611,859**

Effects of conducted appraisals of investments in subsidiaries

Permanent equities in subsidiaries - subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized at the expense of the Bank's expense.

25. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Effects of conducted appraisals of investments in subsidiaries (continued)

Investments in the durable roles of subsidiary banks have been subject to impairment testing at the end of 2017, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment has been significantly reduced).

Based on the conducted testing and the achieved movement of the balance sheet positions of the subsidiary banks in 2017, and taking into account the development plans of the banks, the Bank's conclusion is that no noticeable and clear indications of potential further impairment of these investments have been identified, but also a significant reduction in previously recognized impairment.

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

(000) RSD

	December 31, 2017	December 31, 2016
Intangible assets	340,660	361,442
Intangible assets in progress	119,603	1,065
Total	**460,263**	**362,507**

26.2 Movements on the account of intangible assets in 2017 and 2016 are presented below:

(000) RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2016	1,612,589	7,023	1,619,612
Additions	-	349,007	349,007
Transfers	354,965	(354.965)	-
Balance as of December 31, 2016	**1,967,554**	**1,065**	**1,968,619**
Balance as of January 1, 2017	1,967,554	1,065	1,968,619
Additions	-	240,937	240,937
Transfers	122,399	(122,399)	-
Balance as of December 31, 2017	**2,089,953**	**119,603**	**2,209,556**
Accumulated Amortization			
Balance as of January 1, 2016	1,402,782	-	1,402,782
Charge for the year (Note 16)	203,330	-	203,330
Balance as of December 31, 2016	**1,606,112**	**-**	**1,606,112**
Balance as of January 1, 2017	1,606,112	-	1,606,112
Charge for the year (Note 16)	143,181	-	143,181
Balance as of December 31, 2016	**1,749,293**	**-**	**1,749,293**
Net Book Value			
Balance as of December 31, 2016	**361,442**	**1,065**	**362,507**
Balance as of December 31, 2017	**340,660**	**119,603**	**460,263**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

(000) RSD

	December 31, 2017	December 31, 2016
Property	4,950,836	5,221,254
Equipment	571,847	586,365
Investments in progress	132,565	48,839
Total	**5,655,248**	**5,856,458**

27.2 Movements on the account of property and equipment in 2017 and 2016 are presented below:

(000) RSD

	Property	Equipment	Investment in progress	Total
Cost				
Balance as of January 1, 2016	7,089,568	3,267,620	43,465	10,400,653
Additions	-	-	366,518	366,518
Transfers from assets acquired in lieu of debt collection	64,470	118,654	(183,124)	-
Transfers from investment in progress (Note 28.1)	-	-	(79,470)	(79,470)
Transfers from investment in progress	339,823	-	-	339,823
Transfors to assets held for sales	(77,669)	-	(98,550)	(176,219)
Disposals and retirement	(10,182)	(16,933)	-	(27,115)
Sales	-	(2,446)	-	(2,446)
Appraisal increase	295,623	-	-	295,623
Appraisal decrease	(643,585)	-	-	(643,585)
Balance as of December 31, 2016	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Balance as of January 1, 2017	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Additions	-	-	330,305	330,305
Transfers from PPE under contruction	57,924	192,884	(246,579)	4,229
Transfers to assets held for sales	(176,051)	-	-	(176,051)
Transfers from equipment	787	(787)	-	-
Disposals and retirement	(64,989)	(71,457)	-	(136,446)
Sales	-	(13,671)	-	(13,671)
Balance as of December 31, 2017	**6,875,719**	**3,473,864**	**132,565**	**10,482,148**
Accumulated Depreciation				
Balance as of January 1, 2016	1,696,384	2,564,697	-	4,261,081
Charge for the year (Note 16)	175,068	234,756	-	409,824
Transfers from investments in progress (Note 28.1)	68,698	-	-	68,698
Transfers to assets held for sale	(48,397)	-	-	(48,397)
Disposals and retirement	(8,570)	(16,667)	-	(25,237)
Sales	-	(2,256)	-	(2,256)
Revaluation (increase)	87,358	-	-	87,358
Revaluation (decrease)	(133,747)	-	-	(133,747)
Balance as of December 31, 2016	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Balance as of January 1, 2017	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Charge for the year (Note 16)	173,892	205,854		379,746
Transfers to assets held for sale	(25,486)	-	-	(25,486)
Disposals and retirement	(60,317)	(70,720)	-	(131,037)
Sales		(13,647)		(13,647)
Balance as of December 31, 2017	**1,924,883**	**2,902,017**	**-**	**4,826,900**
Net Book Value				
Balance as of December 31, 2016	**5,221,254**	**586,365**	**48,839**	**5,856,458**
Balance as of December 31, 2017	**4,950,836**	**571,847**	**132,565**	**5,655,248**

27. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Bank does not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, on December 31, 2017, the Bank for 34 construction objects of the present value of RSD 515,278 thousand still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers.

Based on the annual inventory, the amount of RSD 737 thousand was disposed of and disposed of from the records of permanently useless fixed assets of the present value.

In 2017, the Bank sold equipment of the total present value in the amount of RSD 24 thousand.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2017 and 2016 are presented below:

	(000) RSD Total
Cost	
Balance as of January 1, 2016	3,025,003
Transfer from investments in progress (Note 27.2)	79,470
Transfer to PPE (Note 27.2)	(339,823)
Sales	(46,045)
Appraisal (revaluation) - decrease	(269,621)
Balance as of December 31, 2016	**2,448,984**
Balance as of January 1, 2017	2,448,984
Sales	(117,034)
Appraisal (revaluation) - decrease (Note 17)	(79,477)
Balance as of December 31, 2017	**2,252,473**
Accumulated Depreciatin	
Balance as of January 1, 2016	280,977
Charge for the year (Note 16)	52,871
Transfer to PPE	(68,698)
Sales	(1,478)
Appraisal (revaluation) - decrease	(32,504)
Balance as of December 31, 2016	**231,168**
Balance as of January 1, 2017	231,168
Charge for the year (Note 16)	40,655
Sales	(4,438)
Appraisal (revaluation) - decrease (Note 17)	(3,520)
Balance as of December 31, 2017	**263,865**
Net Book Value	
Balance as of December 31, 2016	**2,217,816**
Balance as of December 31, 2017	**1,988,608**

As at 31 December 2017, the Bank has listed investment property in present value in the amount of RSD 1,988,608 thousand, which make the buildings lease.

In 2017, impairment in the amount of RSD 75,957 thousand is charged, based on the fair value appraisals of an authorized external appraisers (Note 17).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

28. INVESTMENT PROPERTY(CONTINUED)

As of 31 December 2017, the net result on the basis of investment property is positive and amounts to RSD 27,867 thousand.

Property	Area in $м^2$	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(23,507)	47,193	23,686
Niš, Vrtište nova d-zgrada	1,816	(4,251)	-	(4,251)
Niš, TPC Kalča	85	(806)	4,748	3,942
Beograd, Omladinskih brigada 9	15,218	(19,824)	16,902	(2,922)
Šabac, Majur, Obilazni put bb	1,263	(1,945)	-	(1,945)
Lovćenac, Maršala Tita bb	46,971	(3,401)	7,273	3,872
Negotin, Save Dragovića 20-22	658	(771)	-	(771)
Niš, Bulevar 12 februar bb	816	(366)	1,524	1,158
Beograd, Radnička 22	7,190	(18,279)	17,723	(556)
Novi Sad, Vardarska 1/B,	291	(1,930)	3,520	1,590
Novi Sad, Bulevar Oslobođenja 88, 3 lokala	367	(2,010)	1,877	(133)
Kotor, Stari Grad, Palata beskuća, poslovni prostor, zgr. Br. 1	207	(1,578)	5,553	3,975
Beograd, Luke Vojvodića 77a	80	(432)	654	222
		(79,100)	**106,967**	**27,867**

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

(000) RSD

	December 31, 2017	December 31, 2016
Non-current assets held for sale and assets from discontinued operations	241,148	183,170
	241,148	**183,170**

Non-current assets held for sale:

Property	Area in m^2	(000) RSD Carrying Value
Jasika, business premises	75.87	559
Požarevac, M.Pijade 2, business premises	826.82	28,968
Požarevac, M.Pijade 2, business premises	880.86	23,969
Vrbas, M. Tita 49, business premises	145.56	3,130
Kotor, business premises 1 and 2	690.00	95,002
Jastrebac, resort building	687.00	20,443
Jastebac, country house	108.00	1,667
Jastrebac, generator storage	65.00	322
Beograd, Palmira Toljatija 5	637.00	67,088
Total		**241,148**

In 2017, one of the facilities in Belgrade, Palmira Toljatija 5, was reclassified from the fixed assets position, as a means of selling, which influenced the increase of these funds.

During 2017, three business premises were sold in Begorad, and on that basis, fixed assets intended for selling the present value of 81,836 thousand dinars were made.

During 2017, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 10,751 thousand.
The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

30. OTHER ASSETS

Other assets comprise:

(000) RSD

	December 31, 2017	December 31, 2016
In RSD		
Fee receivables per other assets	101,231	93,096
Inventories	146,424	131,309
Assets acquired in lieu of debt collection	2,299,238	3,002,894
Prepaid expenses	120,433	100,407
Equity investments	1,571,785	1,380,551
Other RSD receivables	3,001,673	2,938,357
	7,240,784	**7,646,614**
Impairment allowance of:		
Fee receivables per other assets	(44,251)	(44,608)
Assets acquired in lieu of debt collection	(860,172)	(1,018,719)
Equity investments	(504,732)	(503,761)
Other RSD receivables	(935,438)	(866,263)
	(2,344,593)	**(2,433,351)**
In foreign currencies		
Fee receivables per other assets	2,104	77
Other receivables from operations	729,569	384,464
Receivables in settlement	1,354,121	868,544
Other foreign currency receivables	21,045	2,146
	2,106,839	**1,255,231**
Impairment allowance of		
Other receivables from operations	(126,602)	(134,418)
Receivables in settlement	(77,922)	(81,221)
	(204,524)	**(215,639)**
Total	**6,798,506**	**6,252,855**

Throughout regular yearly inventory count, inventories worth 22 thousand RSD have been written off.

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

(000) RSD

	December 31,2017	December 31,2016
Individual impairment allowance		
Balance as of January 1, 2016	204,558	(104,131)
Impairment allowance for the year:		
Charge for the year (Note 14)	33,502	374,702
Foreign currency exchange effects (Note 14)	(1,056)	394
Reversal (Note 14)	(7,547)	(3,925)
Written off	(16,865)	(62,482)
Total individual impairment allowance	**212,592**	**204,558**
Group impairment allowance		
Balance as of January 1, 2016	2,328,130	1,912,656
Impairment allowance for the year:		
Charge for the year (Note 14)	451,058	740,534
Foreign currency exchange effects (Note 14)	(9,670)	2,746
Reversal (Note 14)	(121,869)	(181,303)
Written off (Note 14)	(2,233)	(52,356)
Other (Note 14)	(401,145)	(94,147)
Total group impairment allowance	**2,244,271**	**2,328,130**
Balance as of December 31	**2,456,863**	**2,532,688**
Inventory impairment allowance (not exposed to credit risk)	92,254	116,302
Balance as of December 31	**2,549,117**	**2,648,990**

30. OTHER ASSETS (CONTINUED)

a) Equity investments

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

Equity investments	2017	2016
Equity investments in banks and other financial organizations	80,270	82,536
Equity investments in companies and other legal entities	464,902	468,277
Equity investments in non-resident entities abroad	1,026,613	829,738
	1,571,785	**1,380,551**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(81,863)
Equity investments in companies and other legal entities	(424,462)	(421,898)
	(504,732)	**(503,761)**

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 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. October 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 60,276 thousand and Politika a.d., Beograd in the amount of RSD 31,073 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 845,688 thousand and MASTER Card in the amount of RSD 180,925 thousand.

Impairment allowance of equity investments totaling RSD 504,732 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 banka a.d., Moskva in the amount of RSD 78,387 thousand RTV Politika d.o.o., Beograd - RSD 37,633 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 947,270 thousand, operating receivables of RSD 286,986 thousand, receivables which relate to material values acquired in lieu of debt collection of RSD 2,299,238 thousand (written off in the amount of RSD 860,172 thousand), advances paid for working capital assets of RSD 26,557 thousand, rental receivables of RSD 434,444 thousand and interest receivables per other assets of RSD 204,787 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 1,354,121 thousand for the most part pertain to receivables for spot transactions of RSD 1,251,557 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

30. OTHER ASSETS (CONTINUED)

c) Foreclosed assets

Foreclosed assets totaling to RSD 2,299,238 thousand gross, less recorded impairment allowance of RSD 860,172 thousand, with the net carrying value of RSD 1,439,066 thousand relate to:

I Properties foreclosed before December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Property	Area in m^2	Value	Acquisition Date
I.C.P Kruševac, commercial building	12,836	45,475	08.06.2012.
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,648	24.07.2012.
Majur, Tabanovačka, category 4 arable field	14,452	1,605	10.08.2012.
Mladenovac, category 3 arable field	16,633	263	25,06.2012.
Obrenovac, Mislođin, arable field	10,017	1,035	11.07.2012.
Gnjilica, category 7 arable field	2,638	63	15.04.2008.
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	100,608	21.01.2009.
Novi Pazar, Kej skopskih žrtava 44, premises	82.95	2,738	27.09.2006.
Tivat, Mrčevac – residential building, 121uxiliary facilities in construction and garage	277	5,015	23.12.2009.
Tutin, Buče category 4 forest	8,292	325	12.10.2010.
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	315	27.09.2012.
Budva, category 4 forest	974	3,950	27.05.2011.
Prijevor, category 4 forest	1,995	4,647	27.05.2011.
Residential building Galathea	925.35	184,285	21.11.2011.
Prijepolje, Karoševina, saw mill	450	870	08.11.2013.
Ćuprija, Alekse Šantića 2/24, apartment	72.40	841	15.01.2013.
Niš, Ivana Milutinovića 30, business premises	438.39	5,107	23.04.2013.
Niš, Triglavska 3/1, apartment	79.80	3,284	04.06.2013.
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	23,515	09.07.2013.
Mladenovac, field, category 3 forest	1,142	486	18.07.2013.
Niš, Bulevar 12. Februara, warehouse- ancillary facility	2,062	40,573	30.07.2013.
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	22,811	01.10.2013.
Total I		**451,459**	

II Properties foreclosed after December 30, 2013 – amounts NOT included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Property	Area in m^2	Value	Acquisition Date
Kotor, business premises, property 1	106	21,393	22.12.2016.
Kotor, business premises, property 2	345	69,626	22.12.2016.
Kotor, business premises, property 3	345	69,626	22.12.2016.
Total II		**160,645**	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

III Properties foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Property	Area in m^2	Value	Acquisition Date
Valjevo, village Radjevo, warehouse	394	439	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,450	563	16.05.2014.
Bor, Nikole Pašića 21, production plant and warehouse	3,823	54,292	08.05.2014.
Subotica, Magnetna 17, production plant, warehouse	2,492	46,278	18.07.2014.
Reževići, Montenegro, karst, category 5 forest	1,363.20	19,847	22.07.2014.
Reževići, Montenegro, category 5 forest	5,638.54	81,042	22.07.2014.
Mokra Gora, house, fields	58,400	4,134	31.01.2014.
Kopaonik, house and yard	337	4,083	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,081	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,674	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,718	31.01.2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,612	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,143	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	17,044	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	20,190	31.01.2014.
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	5,736	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	4,923	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	4,801	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	24,857	31.01.2014.
Zrenjanin, Novosadski put 4, building with land	9,144	34,856	14.08.2014.
Niš, Ivana Gorana Kovačića 31, residential building	434.58	4,523	17.04.2013.
Mladenovac, category 3 and 4 arable fields	7,768	250	03.10.2014.
Bela Crkva, forest	4,187	69	03.10.2014.
Mladenovac, arable fields and orchards	25,136	529	03.10.2014.
Niš, Čajnička bb, residential building	825.74	10,756	14.03.2013.
Niš,Sjenička 1, business premises and warehouse	1,452.73	13,244	14.03.2013.
Valjevo, Vojvode Mišića 170, residential building	106	1,713	25.09.2014.
Zemun, Cara Dušana 130, production plants	6,876	100,578	16.06.2014.
Valjevo, Radnička 6, flat	69	2,784	28.05.2015.
Niš, Šumadijska 1, business premises	504.60	1,811	04.12.2014.
Mionica, Andre Savčić 8, family house	107	1,741	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	280	11.06.2012.
Sokobanja, production plant with land	5,042	23,677	31.07.2012.
Sokobanja, portirnica with land	2,005	680	31.07.2012.
Sokobanja, building with land	4,194	8,969	31.07.2012.
Sokobanja, arable land and category 4 orchard	417,908	5,630	31.07.2012.
Beograd, B.Pivljanina 83, residential building	278.52	60,764	23.08.2012.
Prokuplje, category 3 arable field	12,347	565	28.08.2015.
Divčibare, category 5 field	8,012	4,193	02.12.2015.
Lebane, Branka Radičevića 17, residential-business building	768.42	5,713	27.08.2015.
Loznica, Lipnica, residential-business building with land	146	2,072	15.10.2015.
Vrh polje, zgrada ugostiteljstva with land	1,334	2,368	16.05.2013.
Kruševac, St.selo, concrete base with land	100,560	136,062	11.03.2016.
Zrenjanin, Bagijaš, category 2 pasture	230	49	22.12.2015.
Svilajnac, Kodublje, commercial building, plant and land	10,462	32,672	26.02.2016.
Aleksandrovo, Merošina, building with land	8,866.39	14,663	23.12.2015.
Čačak, Suvo polje, buildings 1 and 2 with land	1,225	11,996	05.05.2016.
Bojnik, Miroševce, arable fields, pasture and a vineyard	29,550	228	31.03.2016.
Valjevo, Bobove, category 6 and 7 arable fields	20,599	439	19.05.2016.
Total III		**791,228**	

IV Equipment foreclosed in periods prior December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	8,794	08.06.2012.
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	11,689	31.07.2012.
Paraćin, coffee roasting line	3,485	31.12.2012.
Vranić, equipment, production line	4,684	09.07.2013.
Total IV	**28,652**	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

30. OTHER ASSETS (CONTINUED)

V Equipment foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

(000) RSD

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	4,365	03.06.2015.
Equipment, supply of secondary raw materials	1,652	18.07.2014.
Movables, installation materials	729	13.05.2014.
Other	336	
Total V	**7,082**	
TOTAL (Net carrying value) I + II+ III+ IV+V	**1,439,066**	

During 2017, the Bank sold one property, in Resavska 31, net carrying value shown in the material values acquired in lieu debt collection of RSD 370,417 thousand. The selling price of the mentioned facility amounts to RSD 399,651 thousand and sales revenue amounted to RSD 29,234 thousand.

During 2017, two other facilities and equipment were sold and realized sales revenue amounting to RSD 313 thousand.

The effect of the impairment of assets acquired through collecting receivables in 2017 is shown in the table:

(000) RSD

Effects of property impairment	166,226
Effects of equipment impairment	3,448
TOTAL	**169,674**

Total negative effect amounted to RSD 169,674 thousand and it was recognized as expense of a period as follows (note 14):

- For properties RSD 141,792 thousand based on lower appraisal market value and RSD 24,434 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;
- For equipment RSD 3,448 thousand according to internal act.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

G1.1 Appraisal value of foreclosed properties

In 000 RSD

Property	Area in м^2	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net carrying value in RSD	Difference in value
Beograd, Mihaila Avramovića 14a, residential building	925.35	244,494	1,544	184,285	(60,209)
Kruševac, St.selo, concrete base with land	100,560	141,143	1,403	136,062	(5,081)
Čačak, Hotel „Prezident", Bulevar oslobođenja BB	2,278.92	104,704	849	100,608	(4,096)
Zemun, Cara Dušana 130, production complex	6,876	104,334	977	100,578	(3,756)
Reževići, Crna Gora, category 5 forest	5,638.54	82,528	1,087	81,042	(1,486)
Kotor, business premises, buliding no. 1 PD 4	345	81,014	584	69,626	(11,388)
Kotor, business premises, buliding no. 1 PD 6	345	81,014	584	69,626	(11,388)
Beograd, Baje Pivljanina 83, commercial building	278.52	65,233	512	60,764	(4,469)
Bor, Nikole Pašića 21, buildings, a warehouse and a production plant	3,823	61,916	458	54,292	(7,624)
Subotica, Magnetna 17, production plant and a warehouse	2,492	48,007	811	46,278	(1,729)
Kruševac, Koševi bb, production-commercial building	12,836	47,174	484	45,475	(1,699)
Niš, Булевар 12. Фебруар bb, Auxiliary building-warehouse	2,062	42,088	510	40,573	(1,515)
Sokobanja, Sinex, production plant, land and an orchard	429,419	49,653	515	38,957	(10,696)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

30. OTHER ASSETS (CONTINUED)

Zrenjanin, Bagljaš, Novosadski put 4, buildings, a pump and land	9,374	36,207	441	34,904	(1,303)
Svilajnac, Kodublje, commercial building, plant and land	10,462	33,893	475	32,672	(1,221)
Novi Sad, Polgar Andraša 40/a, business premises 10	408	25,720	209	24,857	(863)
Vranić, Milijane Matić 2, business premises with land	10,584.24	25,790	198	23,515	(2,275)
Kula, Železnička bb, business premises with land	7,959	23,663	319	22,811	(852)
Kotor, business premises, buliding no. 1 PD 2	106	24,892	179	21,393	(3,499)
Novi Sad, Bulevar oslobođenja 88, busines premises 23	253	31,485	170	20,189	(11,296)
Reževići, Crna Gora, a karst and a forest	1,363.20	19,954	168	19,846	(108)
Novi Sad, Bulevar oslobođenja 88, busines premises 22	226	28,152	143	17,044	(11,108)
Aleksandrovo, Merošina, management building with land	8,527	15,211	275	14,663	(548)
Niš, Sjenička 1, commercial building, warehouses and a workshop	1,452.73	13,738	191	13,244	(494)
Čačak, Beljina, Suvo polje, buildings with land	1,225	12,444	161	11,996	(448)
Niš, Čajnička, residential building	825.74	11,158	176	10,756	(402)
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	9,013	48	5,736	(3,277)
Lebane, Branka Radičevića 17, residential commercial building	768.42	5,927	65	5,714	(213)
Niš, Ivana Milutinovića 30, business premises	438.39	5,298	56	5,107	(191)
Novi Sad, Polgar Andraša 40/a, business premises 8	81	5,106	44	4,922	(184)
Novi Sad, Polgar Andraša 40/a, business premises 9	79	4,980	13	4,801	(179)
Novi Sad, Bulevar oslobođenja 30a, 5 business premises	181	19,486	161	19,227	(259)
Prijevor, category 4 forest	1,995	4,732	40	4,647	(85)
Niš, Ivana Gorana Kovačića 31, flat	434.58	4,692	46	4,523	(169)
Divčibare, category 5 field	8,012	4,270	96	4,193	(77)
Mokra Gora, fields and a house	58,400	4,289	57	4,134	(155)
Kopaonik, house with land	337	4,235	41	4,083	(152)
Будва, Брдо Спас, category 4 forest	974	4,022	34	3,950	(72)
Нови Пазар, Ејупа Куртагића 13, house	139.90	3,784	34	3,648	(136)
Other (30 properties)	-	34,115	-	32,591	(1,524)
Total		1,569,558		1,403,332	(166,226)

G1.2 Appraisal value of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in RSD	In 000 RSD Difference in value
Movables	23,314	21,262	(2,052)
Equipment, inventory and secondary raw materials	6,911	6,303	(608)
Other	8,957	8,169	(788)
Total	**39,182**	**35,734**	**(3,448)**

For three movable objects 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.

31. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	December 31, 2017	In 000 RSD December 31, 2016
Liabilities based on changes in fair value-SWAP	7,845	-
Total	**7,845**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

32. 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:

	December 31, 2017	(000) RSD December 31, 2016
Demand deposits	2,171,044	1,676,878
Term deposits	231,664	1,191,809
Borrowings	2,132,509	4,992,338
Expenses deferred at the effective interest rate (deductible item)	(19,733)	(43,055)
Other	17,021	16,992
Balance as at December 31	**4,532,505**	**7,834,962**

During 2017 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:

	December 31, 2017	(000) RSD December 31, 2016
GGF	-	406,224
EBRD	2,132,509	4,586,114
Balance at December 31	**2,132,509**	**4,992,338**

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 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.

During 2017, the Bank has repayed a line of credit due to EBRD of EUR 19,143 thousand which resulted in a decrease in the balance at the end of the year compared to 2016 in the amount of RSD 2,859,829 thousand.

Also, during 2016 with new line of credit arrangements with GGF, the Bank has managed to prematurely repay principal of EUR 3,209 thousand, which reduced the amount of the obligation to zero.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

(000) RSD

	December 31, 2017	December 31, 2016
Corporate customers		
Demand deposits	55,021,237	77,425,520
Overnight and other deposits	7,060,604	9,343,359
Borrowings	5,279,478	8,034,834
Earmarked deposits	1,567,511	888,281
Deposits for loans approved	610,238	651,072
Interest payable, accrued interest liabilities and other financial liabilities	434,975	518,268
Retail customers		
Demand deposits	23,963,864	22,047,442
Savings deposits	191,350,273	196,260,703
Earmarked deposits	4,131,493	4,021,364
Deposits for loans approved	2,073,679	1,992,364
Interest payable, accrued interest liabilities and other financial liabilities	868,612	1,326,108
Other deposits	109,676	112,045
Balance at December 31	**292,471,640**	**322,621,360**

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 2017, 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 1.00 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 0.0% and 0.40% annually for EUR deposits and from 0.00% to 1.00% for USD. 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 0.50 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70% for EUR and from 1.30% to 1.40% annually for USD.

Retail Customer Deposits

Demand RSD and foreign currency savings deposits of retail customers during 2017 were interest-free.

In 2017 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 1.50% to 3.50 % annually and those in foreign currencies at rates from 0.05% to 0.35% annually for EUR and from 0.10% to 1.00% annually for other currencies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (CONTINUED)

Long-term RSD deposits of retail customers were placed at interest rates ranging from 3.75% to 4.00% annually and those in foreign currencies at rates from 0.65% to 0.80% annually for EUR and from 1.00% to 1.50% 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.

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

	December 31, 2017	(000) RSD December 31, 2016
Long term borrowings		
LEDIB 1 and 2 (Kingdom of Denmark)	3,982	18,660
Republic of Italy Government	249,272	374,774
European Investment Bank (EIB)	3,635,120	5,426,479
European Agency for Reconstruction (EAR)	98,674	194,465
Short term borrowings		
KfW	1,292,430	2,020,456
Balance at December 31	**5,279,478**	**8,034,834**

The above presented long-term and short-term borrowings mature in the period from 2018 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 executed Kreditanstalt fur Wiederaufbau (German Development Bank, abbreviated: KfW), the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained.

34. SUBORDINATED LIABILITIES

	December 31, 2017	(000) RSD December 31, 2016
Foreign currency subordinated liabilities	-	6,173,615
Other liabilities (accrued interest liabilities)	-	13,212
Expenses deferred at the effective interest rate (deductible item)	-	(8,437)
Balance at December 31	**-**	**6,178,390**

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). In its maturity, in December 2017, the Bank returned a subordinated loan as a whole - EUR 50,000 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

35. PROVISIONS

Provisions relate to:

	December 31, 2017	(000) RSD December 31, 2016
Provisions for off-balance sheet items (Note 14)	124,392	430,941
Provisions for litigations (Note 38.4)	791,982	913,837
Provisions for employee benefits in accordance with IAS 19	451,677	442,516
Balance at December 31	**1,368,051**	**1,787,294**

Movements on the accounts of provisions are provided below:

In 000 RSD

	2017.				2016.			
	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 38.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigation s (Note 38.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance, January 1	430,941	913,837	442,516	1,787,294	540,123	1,194,874	374,023	2,109,020
Charge for the year	276,066	173,187	33,809	483,062	522,126	368,501	64,866	955,493
Provisions against actuarial gains within equity	-	-	(24,648)	(24,648)	-	-	3,627	3,627
Release of provisions	(260,686)	(269,616)	-	(530,302)	-	(649,538)	-	(649,538)
Reversal of provisions	(321,929)	(25,426)	-	(347,355)	(631,308)	-	-	(631,308)
Balance at December 31	**124,392**	**791,982**	**451,677**	**1,368,051**	**430,941**	**913,837**	**442,516**	**1,787,294**

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs. Total provisions for 71 cases as of December 31, 2017 amounted to RSD 791,982 thousand.

Major items relate to provisions for arrangements with Intereksport ad, Beograd (in bankruptcy) – by letter of credit from 1991 in the amount of RSD 321,599 thousand (The total dinar counterpart refers to the part of the dispute against Interexport a.d. Belgrade – in bankruptcy, in the amount of USD 1,946 thousand for the base and USD 1,222 thousand for interest)

Other disputes mainly relate to claims for damages and labor disputes.

b) Provisions for retirement benefits:

Provisions for retirement benefits were formed on the basis of an independent actuary 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, 2017	(000) RSD December 31, 2016
Discount rate	4.50%	5.00%
Salary growth rate within the Bank	4.00%	5.00%
Employee turnover	4.00%	4.00%

35. PROVISIONS (CONTINUED)

b) Provisions for retirement benefits (continued)

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.

36. OTHER LIABILITIES

Other liabilities include:

	December 31, 2017	(000) RSD December 31, 2016
Accounts payable	385,364	268,295
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	59,886	303,250
Advances received	29,465	27,835
Accrued interest, fees and commissions	139,906	94,184
Accrued liabilities and other accruals	534,653	449,353
Liabilities in settlement	3,077,198	2,027,862
Dividend payment liabilities	2,507,577	2,490,770
Taxes and contributions payable	23,450	68,253
Other liabilities	785,943	417,767
Balance as at December 31	**7,543,442**	**6,147,569**

Liabilities in settlement totaling RSD 3,077,198 thousand mostly relate to liabilities for sale and purchase of foreign currencies in the foreign exchange market from banks in foreign currency in the amount of RSD 947,782 thousand, liabilities for sale and purchase of foreign currencies in RSD in the amount of RSD 354,900 thousand and foreign currency liabilities for spot transactions in the amount of RSD 1,251,952 thousand.

Liabilities from profit in the amount of RSD 2,507,577 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 73,275 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 9760 / 2c of April 27, 2017, a part of prior year's retained earnings was distributed for dividends on preferred shares in the amount of RSD 16,808 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

During 2017, the Bank did not carry out payments based on the distribution of profits for 2014, 2015 and 2016 because of the abovementioned limitation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

37. EQUITY

37.1 Equity is comprised of:

	December 31, 2017	(000) RSD December 31, 2016
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	11,061,535	18,791,828
Revaluation reserves	4,026,721	4,311,409
Retained earnings	19,881	349,698
Profit / (Loss) for the period	8,117,368	(8,063,183)
Balance as at December 31	**63,260,055**	**55,424,302**

The 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 Bank as well as to shares in profit distribution. As of December 31, 2017 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

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

(000)RSD

	Share Count	
Share Type	**December 31, 2017**	**December 31, 2016**
_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 Bank's shareholders with ordinary (common stock) shares at December 31, 2017 was as follows:

(000) RSD

Shareholder	**Share Count**	**% 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	310,106	1.84
Komak-PAN d.o.o.	230,000	1.37
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
Stankom co. d.o.o., Beograd	117,535	0.70
Global Marco Capital Opportun.	103,565	0,62
UniCredit bank, a.d., Srbija (*custody* account)	95,000	0.56
Evropa osiguranje a.d, Beograd in bancruptcy	86,625	0.52
UniCredit bank, a.d., Srbija	78,642	0.47
Others (1,184 shareholders)	1,307,637	7.77
	16,817,956	**100.00**

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

(000) RSD

Shareholder	**Share Count**	**% 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**

37. EQUITY (CONTINUED)

37.1 Equity (continued)

Revaluation reserves totaling RSD 4,026,721 thousand (2016: RSD 4,311,409 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 948,759 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,000,763 thousand and actuarial gains of RSD 77,199 thousand.

The calculation for the payment of dividends on preference shares according to the Annual account for the year 2017 is based on the interest rate on savings deposits in RSD, deposited for a period of twelve months and amounts to RSD 13,222 thousand.

37.2. 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.

	2017.	2016.
Earnings minus preferred dividend (in RSD thousand)	8,104,145	(8,079,990)
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings (loss) per share (in RSD)	482	(480)

Basic earnings per share for the year 2017 amounts to RSD 482 or 48.19% of the nominal value of ordinary shares, while for 2016 adjusted loss per share was RSD 480, or 48.04% of the nominal value of the ordinary shares.

Decreased (diluted) earnings per share for the year 2017 amounts to RSD 482 or 48.19% of the nominal value of ordinary shares, while the 2016 loss amounted to RSD 480 or 48.04% of the nominal value of the ordinary shares.

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2017	(000) RSD December 31, 2016
Operations on behalf and for the account of third parties	4,226,654	4,418,079
Taken-over future liabilities	34,941,426	32,543,235
Derivatives intended for trading under the contract currency	592,364	-
Other off-balance sheet items	434,668,336	483,408,961
Total	**474,428,780**	**520,370,275**

38.1 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:

	December 31, 2017	(000) RSD December 31, 2016
Payment guarantees (Note 4.1.1.)	3,443,746	3,635,706
Performance guarantees (Note 4.1.1.)	4,349,151	6,728,901
Letters of credit	104,330	84,143
Balance as at December 31	**7,897,227**	**10,448,750**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS(CONTINUED)

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).

38.2 Commitments

The breakdown of commitments is provided below:

	December 31, 2017	(000) RSD December 31, 2016
Unused portion of approved payment and credit card loan facilities and overdrafts	10,116,077	9,355,501
Irrevocable commitments for undrawn loans	16,014,883	11,368,665
Other irrevocable commitments	913,239	547,811
Other commitments per contracted value of securities	-	822,508
Balance as at December 31	**27,044,199**	**22,094,485**

38.3 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 4,226,654 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,513,622 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 292,102 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 434,668,336 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients (RSD 78,012,427 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 112,059,304 thousand), repo investments in Treasury bills (RSD 15,000,000 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 19,703,398 thousand (in accordance with the Guidelines for the Implementation of IAS 39), and the amount of the accounting write-off of credit receivables pursuant to the NBS Decision on accounting write-off of balance sheet assets in the amount of RSD 10,594,744 thousand. As per its operating license to perform custody operations, the Bank maintains the financial instruments of its clients on the security accounts, recorded off balance. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the 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 that amount to RSD 128,441,388 thousand.

38.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal suits filed against the bank in 2017 in the total amount of RSD 791,982 thousand (2016.: RSD , 913,837 thousand) (Note 35).As of December 31, 2017 contingent liabilities based on legal suits filed against the Bank amounted to RSD 1,733,824 thousand (for 572 cases).

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 37,417,637 thousand (for 586 cases with the largest individual claim amounts – cases with individual vale over RSD 10,000 thousand). The Bank's management anticipates favorable outcome of the most lawsuits.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

38.5 Commitments for operating lease liabilities are provided below:

	December 31, 2017	(000) RSD December 31, 2016
Commitments due within one year	369,364	421,135
Commitments due in the period from 1 to 5 years	855,834	847,610
Commitments due in the period longer than 5 years	118,340	153,341
Total	**1,343,538**	**1,422,086**

38.6 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. 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 Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.
During 2017, the Bank had no tax controls.

39. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

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

39.1. Shareholders and subsidiaries

The largest portions of the 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 Bank has 3 subsidiaries: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

A. Balance as at December 31, 2017

RECEIVABLES

(000) RSD

Subsidiaries	Loand and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d.	6,589	902	-	7,491	-	7,491
Komercijalna banka a.d. Banja Luka	490,815	42	1,295	492,152	-	492,152
KomBank Invest a.d.	-	119	-	119	200	319
Total:	**497,404**	**1,063**	**1,295**	**499,762**	**200**	**499,962**

LIABILITIES

(000) RSD

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilites	Total
Komercijalna banka a.d. Budva	1,019,079	-	1,654	1,020,733
Komercijalna banka a.d. Banja Luka	229,884	-	-	229,884
KomBank Invest a.d. Beograd	49	-	-	49
Total:	**1,249,012**	**-**	**1,654**	**1,250,666**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

INCOME AND EXPENSES (000) RSD

Related parties	Interest Income	Fees and Commission Income	Iterest Expenses	Fee and Commission Expenses	Net Income / Expenses
Komrcijalna banka a.d. Budva	103	2,603	-	(632)	2,074
Komercijalna banka a.d. Banja Luka	3,940	3,871	-	(897)	6,914
KomBank Invest a.d. Beograd	-	1,521	(102)	-	1,419
Total:	**4,043**	**7,995**	**(102)**	**(1,529)**	**10,407**

Komercijalna banka ad, Belgrade, realized net foreign exchange losses in the amount of RSD 54,899 thousand (2016: net foreign exchange losses of RSD 20,944 thousand) from related parties transactions.

B. Balance as at December 31, 2016

RECEIVABLES (000) RSD

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	6,786	937	-	7,723	-	7,723
Komercijalna banka a.d., Banja Luka	176,389	42	1,580	178,011	370,417	548,428
KomBank INVEST a.d., Beograd	-	163	-	163	200	363
Total:	**183,175**	**1,142**	**1,580**	**185,897**	**370,617**	**556,514**

LIABILITIES (000) RSD

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	438,612	-	1,724	440,336
Komercijalna banka a.d., Banja Luka	139,615	-	-	139,615
KomBank INVEST a.d., Beograd	145,354	1	2	145,357
Total:	**723,581**	**1**	**1,726**	**725,308**

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
Komercijalna banka a.d., Budva	96	4,213	-	(2,056)	2,253
Komercijalna banka a.d., Banja Luka	5,109	1,823	-	(781)	6,151
KomBank INVEST a.d., Beograd	-	1,407	(4)	-	1,403
Total:	**5,205**	**7,443**	**(4)**	**(2,837)**	**9,807**

Komercijalna banka a.d., Beograd realized net foreign exchange losses in the amount of RSD 20,944 thousand (2015: net foreign exchange losses of RSD 18,622 thousand) from related party transactions.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.2. Other related parties

Loans and receivables from related parties

(000) RSD

	2017			2016		
Loand and Receivables	**Balance**	**Off-Balance**	**Total**	**Balance**	**Off-Balance**	**Total**
Lasta d.o.o. Sombor	-	-	-	347	-	347
Advokat Ristić Saša, Kruševac	-	-	-	1	-	1
MEPLAST d.o.o. Kruševac	-	-	-	1	-	1
Menta d.o.o. Niš	-	-	-	1	6,000	6,001
NOVA PEKARA d.o.o. Užice	-	-	-	1	-	1
Zlatiborski Katun Beograd	-	-	-	1	-	1
Cedens company	29	63	92	-	-	-
Individuals	128,509	13,334	141,843	452,323	66,722	519,045
Total	**128,538**	**13,397**	**141,935**	**452,675**	**72,722**	**525,397**

Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
Lasta d.o.o. Sombor	-	-	-	2,600	-	2.600
VIŠ Trade d.o.o. Vršac	-	-	-	13	-	13
Advokat Ristić Saša, Kruševac	-	-	-	2	-	2
MEPLAST d.o.o. Kruševac	-	-	-	733	-	733
MENTA d.o.o. Niš	-	-	-	1,237	-	1,237
Anfibija	189	-	189	-	-	-
NOVA PEKARA d.o.o. Užice	-	-	-	801	-	801
Vladan Perišić SP Elektron, Zrenjanin	-	-	-	21	-	21
Goran Damnjanović, MARVIN+AZAMIT KRUŠEVAC	-	-	-	7	-	7
MM Energo 2010 d.o.o. Kruševac	-	-	-	800	-	800
ZLATIBORSKI KATUN BEOGRAD	-	-	-	16	-	16
EBRD (Note 32)	-	2,145,943	2,145,943	-	4,586,114	4,586,114
International Finance Corporation (Note 32, 34)	-	-	-	-	6,173,615	6,173,615
Reprezent doo	12	-	12	-	-	-
Bolero ZR	8	-	8	-	-	-
Cedens company	2,364	-	2,364	-	-	-
Individuals	94,898	-	94,898	491,541	-	491,541
Total	**97,471**	**2,145,943**	**2,243,414**	**497,771**	**10,759,729**	**11,257,500**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

39. RELATED PARTY DISCLOSURES (CONTINUED)

39.2. Other related parties (continued)

(000) RSD

	2017.		
	Interest	Fees	Total
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija	-	8	8
Individuals	6,471	1,386	7,857
Total Income	**6,481**	**1,556**	**8,037**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Individuals	282	512	794
Total Expenses	**384,756**	**5,644**	**390,400**
Net Expenses	**(378,275)**	**(4,088)**	**(382,363)**

(000) RSD

	2016		
	Interest	Fees	Total
Income			
ABD COMPANY doo, Belgrade - in liquidation	-	2	2
Lasta doo, Sombor	61	188	249
Vis trade doo, Vrsac	14	10	24
Advokat Ristić Saša Krusevac	-	6	6
MEPLAST doo, Krusevac	2	55	57
MENTA doo, Niš	-	333	333
Nova pekara d.o.o., Užice	-	73	73
Goran Damjanovic MARVIN + AZAMIT, Kruševac	-	25	25
MM 2010 Energo Ltd., Užice	-	28	28
Vladan Perišić SR Elektron, Zrenjanin	-	6	6
ZLATIBORSKI KATUN BEOGRAD	-	56	56
Individuals	27,636	9,116	36,752
Total income	**27,713**	**9,898**	**37,611**
Expenses			
Lasta doo, Sombor	2	-	2
EBRD	134,645	914	135,559
International Finance Corporation	374,220	35,354	409,574
MEPLAST doo, Krusevac	1	-	1
MENTA d.o.o., Niš	1	-	1
Nova pekara d.o.o., Užice	1	-	1
MM 2010 Energo Ltd., Užice	1	-	1
Individuals	5,701	6,184	11,885
Total expenses	**514,572**	**42,452**	**557,024**
Net Expenses	**(486,859)**	**(32,554)**	**(519,413)**

39. RELATED PARTY DISCLOSURES (CONTINUED)

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

(000) RSD

	December 31, 2017	December 31, 2016
Gross remunerations		
Executive Board	84,279	156,079
Net remunerations		
Executive Board	72,177	136,966
Gross remunerations		
Board of Directors and Audit Committee	37,415	39,414
Net remunerations		
Board of Directors and Audit Committee	22,963	24,223

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDEND

Based on the analysis of the regular annual census conducted on December 31, 2017, the Bank has non-compliant statements of open items for 24 clients with the stated reason for the dispute and 16 returned unsigned copies.

Non-compliant statements for 16 clients relate to clients who challenge the amount of receivables for given advances, claims based on issued invoices, claims on the basis of a rent in the total amount of RSD 9,799 thousand.
For 4 clients, the non-compliant amounts relate to off-balance sheet items of irrevocable liabilities for unsecured loans, denial of the amounts shown in the letter of intent, denial of balance on individual guarantee batches as of December 31, in the total amount of RSD 9,035 thousand.

4 clients disputed amounts: receivables from domestic and foreign payment fees, the amount of mature annuity, the method of calculating default interest in the total amount of RSD 836 thousand.

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

The Bank is in a continuous process of reconciling of the disputed items.

Unrealized dividends

Unrealized payment dividends in 2017 are amounts (Note 36):

- unpaid liabilities on the basis of dividends from the previous period in the amount of RSD 4,251 thousand,
- According to the 2014 decision, RSD 1,934,065 thousand for preferential shares and 28,686 thousand dinars for priority.
- Potential liabilities for payment of priority dividends based on the calculation for 2015 amount to RSD 23,530 thousand
- Potential liabilities for payment of priority dividends based on the calculation for 2016 in the amount of RSD 16,808 thousand

The potential liabilities for payment of the priority dividends based on the calculation for 2017 amount to RSD 13,222 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

41. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the balance sheet date that would be necessary to be disclosed in the financial statements.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market meeting applied for the reconciliation of balance sheet items in RSD on December 31, 2017 and 2016 for certain major currencies are:

	December 31, 2017	December 31, 2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473

In Belgrade, March 15, 2018

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

Miroslav Perić
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

Slađana Jelić
Deputy Chief Executive Officer

ANNUAL REPORT ON OPERATION OF KOMERCIJALNA BANKA AD FOR 2017

March 2018

CONTENT

1. KEY PERFOMANCE INDICATORS OF THE BANK

PROFIT AND LOSS(in 000 RSD)	2017.	2016.	Index 17/16	2015.	2014.	2013.
Positions						
Profit / loss before taxation	7.187.250	-8.377.636	-	-6.175.885	4.757.589	4.588.375
Net interest income	12.446.197	13.462.734	92,4	13.768.082	13.298.586	12.929.237
Net income from fees	5.082.226	4.817.314	105,5	4.899.947	4.717.757	4.565.148
*Operating costs**	10.833.081	11.086.858	97,7	10.799.510	10.745.910	10.161.794
Net expenses from indirect write-offs of loans and provisions	17.883	-14.907.539	-	-13.008.526	-2.725.389	-3.220.075

** Note: Operating expenses include costs of wages, material and non-material operating costs*

BALANCE SHEET (in RSD 000)	2017.	2016.	Index 17/16	2015.	2014.	2013.
BS ASSETS	369.183.538	400.017.469	92,3	393.439.874	406.261.524	362.786.319
RETAIL						
*Loans ***	81.712.222	75.522.465	108,2	70.784.957	69.039.387	61.848.487
Deposits	230.033.982	231.312.395	99,4	218.836.847	207.430.548	186.766.804
CORPORATE						
Loans	71.725.704	74.083.897	96,8	89.204.275	112.768.251	112.261.312
Deposits	52.548.029	78.300.568	67,1	55.503.896	57.437.462	42.131.535
*Securities****	117.288.767	136.366.773	86,0	129.607.464	95.654.325	57.001.465

***Note: The position of loans does not include other loans and receivables, position deposits do not include other liabilities and funds received through credit lines. At the request of the auditor in 2017, the balance sheet for 2015 was adjusted.*
****Note: The position Securities includes financial assets at fair value through P&L intended for trading, financial assets initially recognized at fair value through P&L, Available-for-sale financial assets and financial assets held to maturity.*

RATIOS	2017.	2016.	Index 17/16	2015.	2014.	2013.
LOANS/DEPOSITS RATIO						
Gross loans/deposits	61,3%	58,7%		67,4%	72,4%	77,8%
Net loans/deposits	56,1%	50,7%		57,2%	66,3%	72,0%
CAPITAL (in RSD 000)	63.260.055	55.424.302	114,1	62.838.046	69.546.804	64.962.218
Capital adequacy	27,89%	26,97%		22,70%	17,67%	19,02%
Number of employees	2.806	2.858	98,2	2.877	2.906	2.966
PROFITABILITY PARAMETERS						
ROA	1,89%	-2,05%		-1,56%	1,25%	1,33%
ROE - on total capital	11,91%	-13,86%		-8,99%	7,05%	7,33%
Net interest margn on total loans	3,3%	3,3%		3,5%	3,5%	3,7%
Cost/income ratio	61,8%	60,7%		57,9%	59,6%	58,0%
Assets per employee (in 000 EUR)	1.111	1.134	98,0	1.124	1.067	951

The business in 2017 was in a relatively stable macroeconomic environment, with positive trends in key sizes. The year behind us was marked by the growth of gross domestic product (GDP), high level of foreign direct investment, surplus of the republic budget, and decline in public debt in GDP, dinar appreciation and unemployment drop.

In the previous year, the National Bank of Serbia (NBS), in the framework of the activities aimed at further strengthening the overall stability of the banking sector, paid special attention to the issue of nonperforming loans. As part of the resolution of this issue, the NBS adopted the Decision on the accounting write-off of the balance sheet assets of the bank, according to which banks are obliged to carry out the transfer of balance sheet assets of low level of collectability (when the amount of impairment of the loan was recorded by the bank as 100% impaired by its gross book value) into off-balance sheet records. As a result of the implementation of the Decision, a significant reduction in the NPL share in total loans was recorded (from 17.0% at the end of 2016 to 11.1% at the end of November).

The capital adequacy ratio of the sector is further increased after the beginning of the implementation of Basel 3 standards. Interest rates on newly approved loans are additionally reduced to historically low values. Low inflationary pressures during the previous year caused the NBS to further relax the monetary policy during the previous year (the reference interest rate was reduced from 4.0% to 3.5%).

As the sublimation of all of these, at the end of 2017, the country's risk premium dropped to 100 basis points (a further reduction in the beginning of 2018 to a level of 85 basis points), and the country's credit rating was increased.

During 2017, the Bank implemented all planned activities, in accordance with the adopted Strategy and Business Plan.

The Bank managed to retain the position of systemically important Bank in the banking sector of Serbia, expressed in the amount of balance assets (other position in the sector with a share of 11%) and the volume of share capital (the other position in the sector with a share of 10%). In a longer period of time, the Bank also stands out in the sector in terms of the volume of retail foreign currency savings. At the end of 2017, retail foreign currency savings amounted to EUR 1,624 million.

Safe and stable business, as a priority objective of the Bank in 2017, was achieved and the Bank recorded one of the best business years, which is unmistakably confirmed by the high liquidity, capitalization, growth of business activity and realized profit.

The Bank fulfils all statutory performance indicators, while the indicator of the capital adequacy of the Bank, as the most important indicator of business safety, at the end of 2017, amounts to 27.89% (minimum 8% + prescribed capital buffer). Total equity of the Bank at the end of 2017 amounted to RSD 63,260.1 million or EUR 533.9 million and compared to the end of the previous year it increased by RSD 7,835.8 million.

In 2017, certain organizational changes were made. Since mid-April 2017, the full implementation of the new organization of a business network comprised of 6 Business Centres (intended for working with retail clients), the Kosovska Mitrovica Branch and 5 Business and Corporate Centres (intended for working with business clients) has begun. When creating a new business network, the key goals were to: increase efficiency in working with clients, speed up the process of making credit decisions with further rationalization of operating costs. As part of these efforts, further centralization of operations was carried out, transfer of business from the branch network to the Bank's seat, creating additional space for the employees in the network to dedicate themselves to the clients of the Bank as much as possible.

In the previous period, banks have unequivocally established that the whole society is increasingly based on the Internet, electronic and digital business, and have sought ways to apply modern technologies to their business.

In the previous period, and especially during 2017, Komercijalna Banka also listed the digitization of the business as one of the significant goals. The focus is on providing customers with, based on state-of-the-art technology, services that will satisfy their everyday needs. In addition to focusing on clients, digitization is a process that we use for internal modernization, improvement of the process, that is, increasing the efficiency and quality within the Bank. In this way, we try to leave more time to devote to our customers.

If we should extract the most important from the digitalization segment in 2017, then we proudly emphasize that the "electronic" branch ("KOMeCENTAR") "has been opened", which enables the application for a specific products and services via the Internet, without leaving the comfort of one's home, such as current accounts, overdrafts per current account and debit cards with deferred payment.

In the area of retail banking, the Bank has implemented a range of new products such as cash sending services ("KOMeCASH") on the market, only with the use of a mobile phone, and via the mBank application. Another service, the digital Visa card ("KOMePAY"), is based on "HCE" technology, also used in the mBank application, which enables all contactless payments with the help of a mobile phone - no wallet required. Since August 2017, the Kombank Trader application, the application for electronic trading of securities, which now allows trading on the 35 most famous world stock exchanges, was released in full use.
As a result of all this, the Bank increased the number of clients in 2017, so now the Bank has more than 1.0 million customers.

The most pronounced risk to the Bank's operations (as well as the entire sector) remains the credit risk. In order to further improve the risk management system, and in accordance with the NBS regulations and the preparation for the implementation of the IFRS 9 standard, the Bank has taken all necessary measures for the sound management of credit and other risks.
As a result of the established risk management system and the implementation of the National Bank of Serbia's Decision on write-off of balance sheet assets in 2017, the Bank significantly reduced the indicator of non-performing loans (NPL). At the end of 2017, the NPL is 13.8% (planned value is 16.8%); while at the end of 2016 it was 19.4%.
Komercijalna Banka is also one of the regional banking leaders, because its business success is contributed by the subsidiaries, Komercijalna Banka Budva, Komercijalna Banka Banja Luka and KomBank Invest Beograd.
In contrast to 2015 and 2016, when the Bank recorded a negative result, in 2017, the Bank ended with a positive result of RSD 7,187.3 million. In addition to the positive result and high capital adequacy, additional business security has also been provided by reserves from profit. Formed reserves from profit are exceeding the required reserves calculated in accordance with the regulations of the National Bank of Serbia (Decision on classification of balance sheet assets and off-balance sheet items of banks).
As a result of all of the above, the Bank fulfils all the parameters prescribed by the Banking Law.

After the audit of the financial statements for 2017, the external auditor of the Bank issued a clean opinion, i.e. stated that the financial statements fairly and accurately present the Bank's financial position in accordance with the International Financial Reporting Standards, the Law on Accounting and Regulations of the National Bank of Serbia.

In the following period, according to the Strategy and Business Plan, the focus of the Bank will remain on:

- Preservation and improvement of the client base;
- Growth of lending;
- Maintaining the stability of the Bank's business and reputation;
- Raising the value of the Bank;
- Sustainable business growth and profitability - stable revenue with cost control.

Financial targets of KB (in%)	2017 achieved	2018 plan	2019 plan	2020 plan
Growth of assets	-7,7	3,8	5,1	5,9
Profit/loss before tax (RSD mn)	7.187	7.145	7.516	8.065
ROA	1,9	1,9	1,9	1,9
ROE - total capital	11,9	11,2	11,2	11,3
Interest margin (net interest income / total assets)	3,3	3,3	3,3	3,2
Breakeven margin	1,4	1,5	1,4	1,3
Cost/income ratio	61,8	57,8	56,2	54,7
NPL	13,8	12,8	11,2	9,7

2. MACROECONOMIC CONDITIONS OF OPERATIONS

In the international financial market, the past 2017 marked the diversity of monetary policies of leading central banks, the Federal Reserve (FED, USA) and the European Central Bank (ECB). Federal Reserve raised the reference rate at the end of 2017 (1.25% -1.50%), the European Central Bank kept the reference rate (0.00%), the Bank of England increased the interest rate at the end of last year (0.50%), while the Swiss National Bank did not change the reference rate in 2017 (from -1.25% to -0.25%). The aforementioned divergence of the monetary policies of the leading central banks makes global capital flows to the developing countries uncertain, Serbia included. In mid-December 2017, the ECB decided to continue with the asset purchase program, but with a reduced monthly volume of EUR 30 billion (instead of the previous EUR 60 billion), or until inflation reaches the targeted level. On the commodity market, the crude oil price oscillation continued. The oil price fluctuations was affected by the weather in the Gulf of Mexico and in Florida in September, the closing of the North Sea oil pipeline in December. The news that members of "OPEC" and other manufacturers are working on gradual exit plans from the agreement on reduction of production[1] has positively reflected on the price of oil. At the end of December 2017, the Brent type crude oil price was around US $ 64.0 per barrel.
The International Monetary Fund (IMF) has revised the global economic growth estimate for 2017 from 3.5% to 3.6% and for 2018 from 3.6% to 3.7%[2] (0.1 pp. more than April assessment). China remains the main driver of global economic development. China's GDP growth in 2016 was 6.7%, while growth estimates in 2017 and 2018 is 6.8% and 6.5% respectively[3]. Also, in 2017 geopolitical tensions continued in the Middle East (Syria, Iraq).

In the Republic of Serbia, according to the first estimates, GDP growth in 2017 is expected to be 1.9%[4] (2.0%, MFIN[5]). Economic activity in 2017 continued with positive developments, which were somewhat slowed down by unfavourable meteorological conditions, and consequently, the decline in agricultural output as well as unfavourable developments in the electricity sector at the beginning of the year. Low inflationary pressures over the previous year and low inflation in the region have influenced domestic inflation (3.0% y.o.y[6]) to remain within the targeted rate. According to the results from the Labour Force Survey (third quarter of 2017), there was a decrease in unemployment or an increase in employment compared to the same period in 2016. In the first ten months of 2017, the total value of the exported goods was EUR 12.6 billion, while the value of the imported goods was EUR 15.9 billion, i.e. the foreign trade deficit amounted to EUR 3.6 billion (an increase of 15.4%[7]). The net inflow of foreign direct investment (FDI) at the end of November 2017 amounted to about EUR 2.3 billion[8], an increase of 37.5% y.o.y and exceeded the forecast for the entire 2017. FDIs were mainly directed towards export-oriented sectors. In addition to the EU, FDIs have come from the Asia-Pacific region and the Middle East. The improvement of the domestic business environment was also confirmed by further progress on the Doing Business list of the World Bank from 47th to 43rd place. Central government debt at the end of November 2017 amounted to EUR 23.4 billion, representing 62.6% of GDP as opposed to the end of 2016, when it amounted to 71.9% of GDP. Country risk premium, measured by EMBI index (bonds index of developing countries), continued to decline in 2017, indicating higher investment security. From mid-December, EMBI for Serbia is below 100 b.p. which is the lowest level[9]. The corresponding contribution to all referred to above was also given by the IMF's positive assessment of the successful completion of the eighth revision of the "stand by" precautionary arrangement.

At the end of the year under review, the Serbian Parliament adopted a set of financial laws aimed at implementing financial consolidation, a further fight against the "grey economy" and economic development. The Law on Amendments to the VAT Law was adopted; Law on Amendments to the Law on Corporate Income Tax; Law on Amendments to the Law on Personal Income Tax; Law on Prevention of Money Laundering and Financing of Terrorism; Law on Amendments to the Law on Public Debt of the Republic of Serbia on the basis of unpaid foreign currency savings of citizens deposited with banks whose seats are on the territory of the Republic of Srpska and their

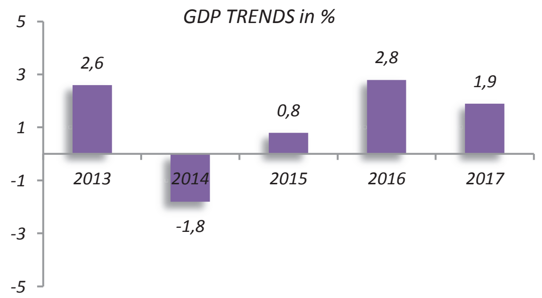
[1] NBS, Overview of events on the global financial market, December 2017
[2] Source: IMF, World Economic Outlook, october 2017
[3] Source: IMF, World Economic Outlook, october 2017
[4] SORS, Economic Trends in RS, December 2017
[5] MFIN, Basic Macroeconomic Indicators, December 2017

6 SORS, Press Release, December 2017
7 MFIN, Current Macroeconomic Movements, December 2017
8 NBS, Macroeconomic Trends, January 2018
9 NBS, Macroeconomic Trends, January 2018

branches in the territory of the former Republics of the SFRY; Law on Amendments to the Law on Bankruptcy; Law on Amendments to the Labour Law.

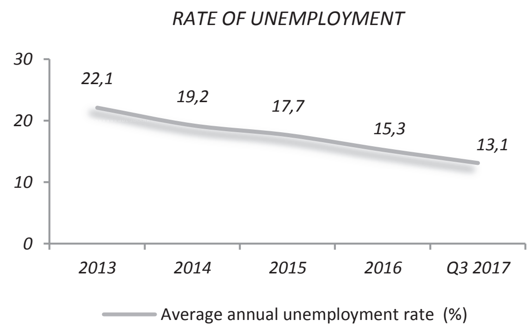
GDP trends

After 2016 and the economic growth of 2.8%[10], the economic activity continued positive developments during 2017. As a result of the measures taken, economic growth followed the growth of total economic activity in the third quarter of 2017, measured by gross domestic product of 2.1% in relation to the same quarter of the previous year. According to the first estimates, the overall economic activity in 2017, measured by GDP, grew by 1.9%[11] compared to the previous year. The largest contribution to the growth of GDP on the supply side has been the growth of industrial production, primarily the processing industry and service sector. Within the processing industry, chemical, rubber and mechanical industry stand out, as well as the production of metal products and the production of electrical equipment, which are among the most important. The tobacco industry and the production of core metals[12] are also making steady growth, with an increasingly important role. Construction also made a positive contribution, while agriculture had the biggest negative impact. Extreme drought followed by high temperatures in early 2017 significantly reduced yields of all planted crops. On the consumption side, GDP growth was driven by investment activity and personal consumption, and government consumption also gave a slight positive contribution. The electricity sector, after agriculture, had the most significant negative impact on GDP growth.



Employment/unemployment

In 2017, the 2016 trend continued, the labour market continues to recover. The growth of economic activity has also positively reflected on the labour market by increasing the number of employees since the beginning of the year. According to data obtained from the Labour Force Survey at the end of the third quarter of 2017, there was a significant reduction in unemployment compared to the same period in 2016. The unemployment rate at the end of the third quarter of 2017 was 12.9% and it was lower compared to the same period of 2016 when it was 13.8%. The number of employed persons aged 15 and older is higher by 67,900, and the number of unemployed persons is lower by 21,900[13]. In the structure of employed persons, the number of formally hired employees increased by 117,000, mostly in the manufacturing industry and in professional, scientific and technical activities. The number of informally hired employed persons is lower by 49,000 in relation to the same period of the previous year.



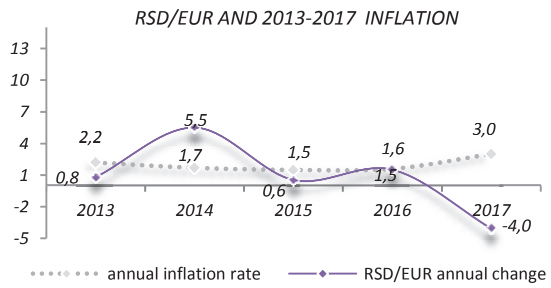
Source: Statistical Office of the Republic of Serbia (average for the period)

Inflation

During 2017, y.o.y inflation was constantly within the boundaries of the target NBS corridor of 3.0% ± 1.5pp. At the end of 2017, year-on-year inflation was 3.0%[14]. Level of inflation in 2017 was impacted by the prices of primary agricultural products, prices of crude oil and petroleum products and inflation in the international environment. According to the NBS projection, year-on-year inflation will continue to move within the target of 3.0% ± 1.5 pp. in the coming period, with a decrease in the beginning of 2018.

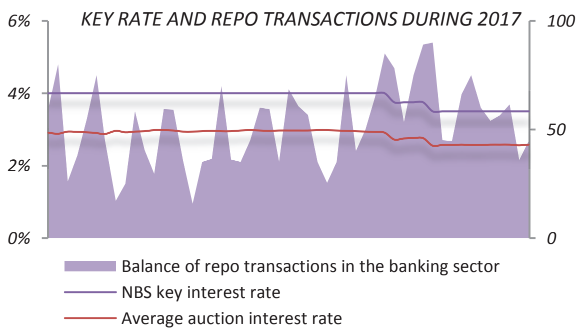
10 MFIN RS, Current macroeconomic developments, December 2017
11 SORS, Press Release, Economic Trends in RS, December 2017
12 MFIN, Fiscal Strategy 2018-2020

13 SORS, Labor Force Survey, Third Quarter 2017
14 SORS, Press Release, Consumer Price Index, December 2017



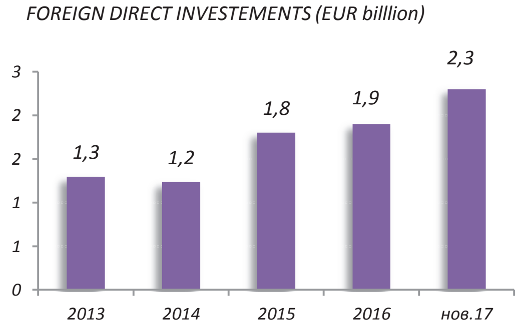
Key interest rate

Total macroeconomic developments enabled the National Bank of Serbia to maintain a relaxed monetary policy in 2017 and to continue the decline in the reference interest rate (RKS) from 4.00% at the beginning of the year to 3.50% at the end of the year. When reducing key rate, the NBS took into account the mid-term inflation projection, in conditions of reduced country risk premium, unchanged inflation expectations and lower "import" inflation. With the additional reduction of key rate in conditions of low inflationary pressures, the NBS provided additional support to the growth of lending activities of commercial banks. By returning the reverse repo instrument, the NBS again allowed banks to place excess liquid assets in treasury bills, using an auction method and multiple interest rates. This resulted in the separation and formation of the auction (lower) and the reference (higher) interest rate. The average weighted REPO rate at the end of 2017 amounted to 2.57%, while at the end of 2016 it was 2.89%. The volume of REPO transactions ranged from a minimum of RSD 15.8 billion to a maximum volume of RSD 90.0 billion in October, ending the end of the year with RSD 45.1 billion.



Foreign direct investments

Foreign direct investment (FDI), as of November 2017, reached an amount of about EUR 2.3 billion[15] while in the same period of the previous year they amounted to about EUR 1.7 billion. FDIs were mainly directed towards export-oriented sectors. Within the manufacturing industry, where most of the FDIs were placed, the largest inflow of investments was made in the production of motor vehicles, basic metals, rubber and plastics, pharmaceutical and chemical products.

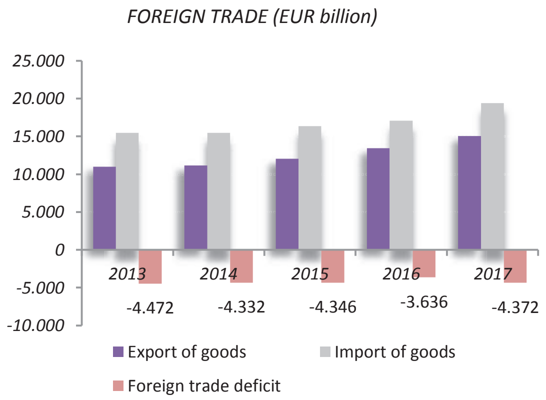


The mentioned investments led to the growth of employment, the growth of production and export of the processing industry. The volume of foreign direct investments of around EUR 2.3 billion would be sufficient to cover the current account deficit, which is estimated at EUR 1.7 billion or 4.6% of GDP for the entire 2017[16].

Foreign-trade exchange

The total foreign trade of the Republic of Serbia in the previous year amounted to EUR 34.5 billion[17]. This volume represents an increase of about EUR 4.0 billion compared to the same period of the previous year. Export of goods, for the twelve months of 2017, reached a value of EUR 15.0 billion. Import of goods in the same period amounted to EUR 19.4 billion, i.e. deficit of the realized trade exchange amounted to EUR 4.4 billion (an increase of 20.2% compared to the same period of the previous year).

15 NBS, Macroeconomic Trends, January 2018
16 MFIN, Fiscal Strategy 2018-2020
17 MFIN, Macroeconomics Trends, February 2018



The most important export products are electric machines, appliances and devices with a share of 9.1[18]%. Observed by companies exporting, company Fiat automobili Srbija d.o.o. Kragujevac (FAS) is a leading exporter (by the end of November 2017). By the end of November 2017, the volume of FAS exports amounted to EUR 870.2 million, followed by HBIS Group Serbia d.o.o. Smederevo (former Zelezara Smederevo), Tigar tires d.o.o. Pirot and NIS a.d. Novi Sad[19].

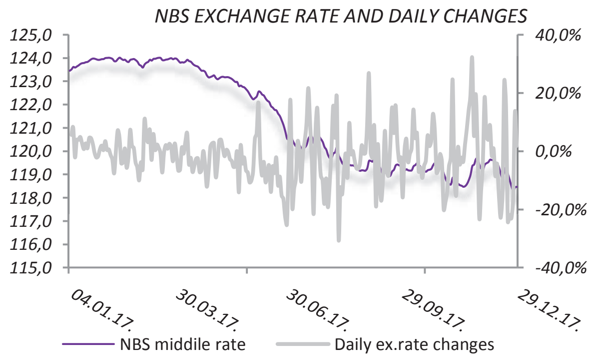
Looking at the structure of foreign trade by regions and countries, about 2/3 of the foreign trade is still being carried out with EU countries. Imports from EU countries account for 62.4% of total imports, while exports to EU countries account for 66.1% of total exports[20] in the period January-December 2017. The main foreign trade partners from the EU are Italy and Germany and in 2017 with 25.8% of total exports, and 22.7% of total imports from the same countries [21].

EUR / RSD Exchange Rate

The EUR/RSD exchange rate (118.47) at the end of 2017 is 4.0% lower than the end of 2016. During 2017 the EUR/RSD rate ranged from 118.29 to 124.02 RSD for EUR. The movements in the dinar exchange rate were under the influence of favourable macroeconomic indicators, positive IMF estimates regarding the implementation of the signed stand by arrangement with the Government of RS, improved country credit rating (Moody's, S & P, Fitch[22]), increased confidence of foreign investors and growth of investments in securities of the Republic of Serbia.

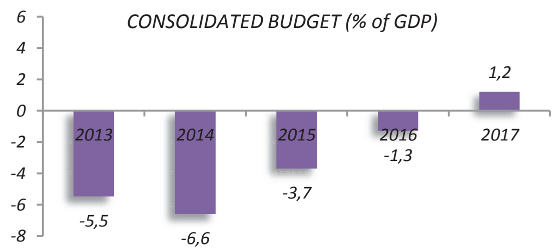
During 2017, the dinar appreciated against the euro by 4.2% and in relation to the dollar by 18.2%. In the course of 2017, the National Bank of Serbia (NBS) intervened on the interbank foreign exchange market (MDT) in both directions, through the purchase and sale of foreign exchange, thus preventing greater daily oscillations in the value of the domestic currency. During 2017, the volume of NBS purchases at MDT amounted to EUR 1,355 million, while sales volume was EUR 630 million.

The NBS foreign exchange reserves at the end of December 2017 reached the amount of EUR 10.0 billion (according to preliminary data) and decreased by 2.4% compared to the end of 2016.



Budget deficit / surplus

At the end of 2017, at the general government level, total fiscal surplus in the amount of RSD 52.3 billion [23]. According to the previous agreement with the IMF, a total fiscal deficit was foreseen, for a full year, from RSD 75.2 billion, which means that budgeting is better than planned due to better collection of all types of income.



Source: MFIN (consolidated fiscal result)

At the end of December 2017, a surplus of the budget of the Republic in the amount of RSD 33.9 billion was achieved[24]. In the mentioned period revenues were collected in the amount of RSD 1,119.1 billion, and expenditures in the amount of RSD 1,085.2 billion. In the period January-December, budget revenues increased by 7.1% y.o.y. while expenditure on the expenditure side of the budget grew by only 1.3% y.o.y[25] Compared

18 MFIN, Current Economic Flows, February 2018
19 MFIN, Current Economic Developments, December 2017
20 MFIN, Current Economic Flows, February 2018
21 MFIN, Current Economic Flows, February 2018
22 NBS, Macroeconomic Trends in Serbia, January 2018

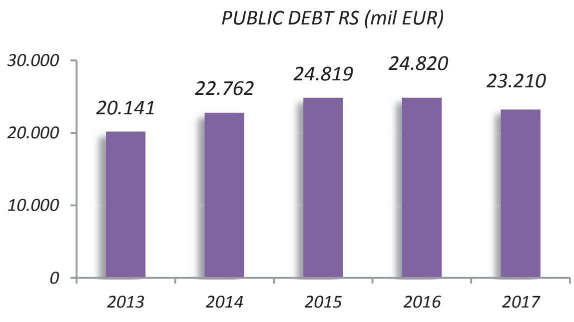
23 MFIN, announcement for December 2017
24 MFIN, announcement for December 2017
25 MFIN, Current Economic Flows, February 2018

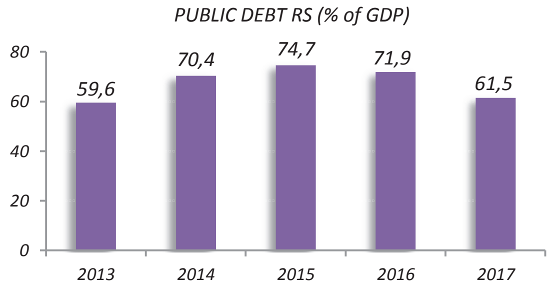
to 2016, the highest individual growth on the revenue side of the budget was recorded in corporate income tax, while on the expenditure side of the budget, growth was recorded in other current expenditures. With the budget expenditures, for the first time since the pre-crisis period, there was a fall in interest payments. In the structure of budget revenues, in the period January-December 2017, excise revenues increased by RSD 14.3 billion. This increase is the result of an increase in the excise tax on sales of tobacco products in 2017 compared to 2016 in the amount of RSD 7.3 billion[26].

With the fiscal consolidation program, the state mainly affected the adjustments on the expenditure side of the budget in 2015. More favourable fiscal results from 2016 are due, above all, to higher budget revenues due to economic growth and more efficient collection of all tax items.

Sovereign debt

The public debt of the Republic of Serbia (central government level) at the end of December 2017 amounted to EUR 23.2 billion [27] which represents 61.5% of GDP. According to the available data of the Ministry of Finance, compared to the same period in 2016, the public debt was reduced by EUR 1.6 billion. The biggest obstacle to reducing the share of public debt in GDP lies in the international environment, and primarily in the exchange rate of the dollar against the dinar (around 30% of the debt is in the US) and interest rate changes (about 20% of the debt is RS at variable interest rates)[28].





Foreign debt

According to the NBS data at the end of September 2017, the total external debt, public and private sector, amounted to EUR 26,0[29] billion and compared to September 2016, it increased by EUR 431.4 million. External debt of the private sector increased by EUR 710.9 million in the observed period, while the public sector debt was reduced by EUR 279.5 million. The external solvency indicator, presented as a ratio between the amount of external debt and the value of exports of goods and services, slightly improved at the end of September 2017, amounting to 137.6%, and (beginning of the year 152.4%)[30].

---

[26] MFIN, Current Macroeconomic Movements, February 2018

[27] MFIN, macroeconomic and fiscal data, February 6, 2018

[28] MFIN, balance of debt and debt structure, December 2017

[29] NBS, external debt of RS to debtors dated December 29, 2017

[30] NBS, Indicators of the external position of Serbia from February 5, 2018

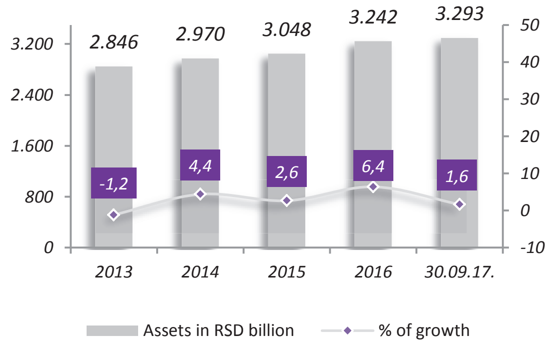
3. BANKING SECTOR OF THE REPUBLIC OF SERBIA AND THE FINANCIAL POSITION OF THE BANK

3.1. Banking Sector

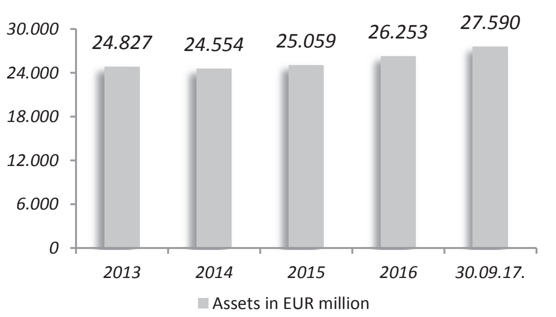
At the end of September 2017, the banking sector of the Republic of Serbia comprises a total of 30 banks with 23,342 employees[31], with total assets of RSD 3,293.3 billion and total capital of RSD 662.7 billion. The ten largest banks with balance sheet assets account for 77.4% of total sector assets.

During the first nine months of 2017, the balance sheet assets of the banking sector increased by 1.6% compared to the end of the previous year, total capital increased by 4.8%, while the number of employees decreased by 2.1%.

MOVEMENT OF THE BANKING SECTOR

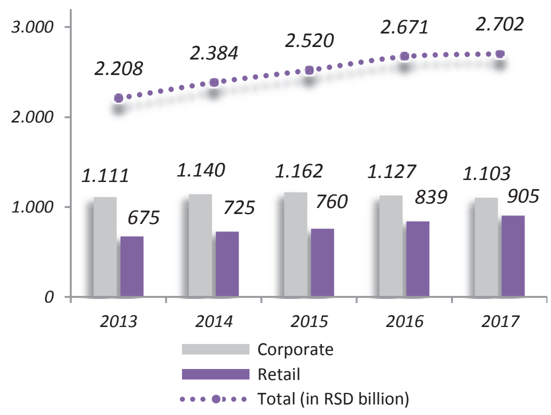


MOVEMENT OF THE BANKING SECTOR



During the first three quarters of 2017, the trend of decreasing interest rates on dinar corporate and retail loans continued, which contributed to the growth of total loans (5% in September in 2017), and was mainly driven by the growth of retail loans (11.4%[32]). In the meantime, the banking sector had significant surpluses of liquid assets, bearing in mind the reference indicators of liquidity. The surplus of liquid assets of the banking sector is mainly marketed in government securities and reverse REPO operations of the NBS. At the end of September 2017, the balance of banks' investments in REPO transactions amounted to RSD 75.0[33] billion, while in September 2016 it amounted to RSD 65.0 billion. The total value of government securities portfolio at the end of September amounted to RSD 613.3 billion. The share of securities available for sale amounted to 16.6% of the assets of the banking sector, while cash and balances with the Central Bank amounted to 13.4% (as of September 30, 2017).

CREDIT ACTIVITY OF THE SECTOR

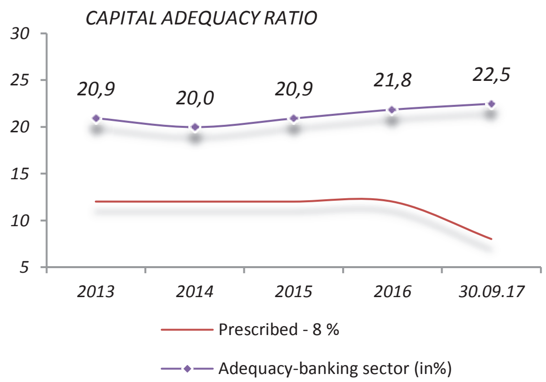


The share of gross NPL loans in total gross loans at the end of September 2017 amounted to 12.2%, while at the end of December 2016 it was 17.0%, and at the end of 2015 as much as 21.6%.[34] Observed by sector structure, most of the gross NPL loans continue to apply to companies. At the end of September 2017, the gross NPL loan coverage calculated by the reserve for estimated losses on balance sheet positions amounted to 127.2%. Impairment losses of NPL loans cover 62.2% of gross NPL loans[35]. Gross NPL loans to individuals at the end of the third quarter of 2017 amounted to RSD 63.0 billion and were reduced by 19.5% compared to the second quarter of the same year. Gross NPL loans to companies amounted to RSD 124.3 billion and were by 13.0% lower than in the previous quarter.[36]

31 NBS, Third Quarter Report 2017
32 NBS, Macroeconomic Trends in Serbia, November 2017.
33 NBS, Third Quarter Report 2017
34 NBS, Third Quarter Report 2017
35 NBS, Third Quarter Report 2017
36 Idem

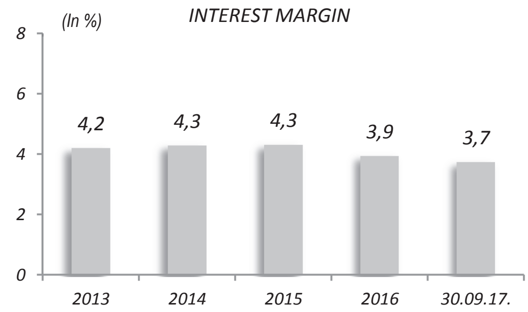
Retail *FX savings* tended to grow steadily and in 2017 and at the end of September 2017 reached EUR 8.9 billion, an increase of 3.3% compared to December 2016.

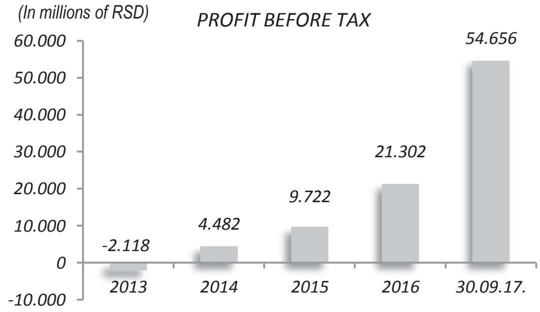
In order to align with EU legal acts (in the field of banking) the NBS has adopted new regulations in line with the Basel 3 standards, which apply from June 30, 2017. Average value of *capital adequacy* ratio, as of September 30, 2017 amounted to 22.5%[37]. The stated value, in relation to the new prescribed minimum ratio of 8.0%, means that the banking sector is adequately capitalized. At the end of September 2017, the share capital of the banking sector amounted to RSD 400.9 billion.



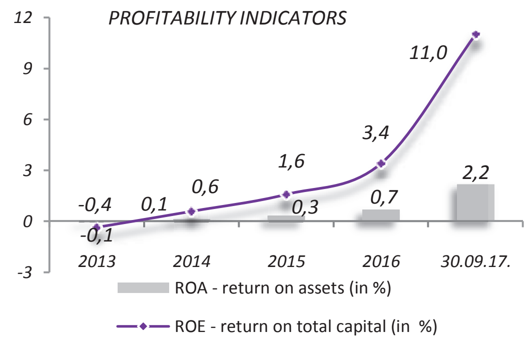
At the end of the third quarter of 2017, the total indebtedness of banks by credit operations abroad was RSD 150.6 billion, a decrease of 2.3% compared to the end of 2016 [38].

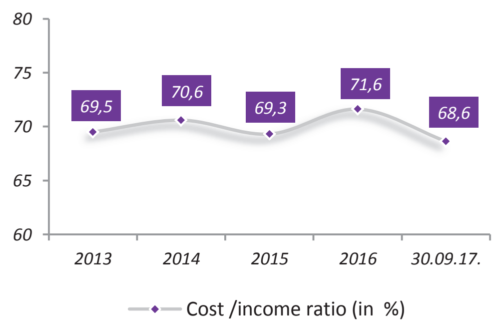
In the first three quarters of 2017, banks recorded profit growth. At the end of the third quarter of 2017, a positive net financial result, before taxation, was realized in the amount of RSD 53.5 billion. In the observed period, 25 banks operated positively with a total profit of RSD 54.7 billion, while 5 banks operated with a total loss of RSD 1.2 billion. The most important factor for the growth of the net profit of the banking sector is the decrease in net credit losses in relation to the same period in 2016. Costs of value adjustments recorded a decrease compared to the same period last year (September 2017 - RSD 2.2 billion, September 2016 - RSD 15.6 billion).





Note: the end-2013 result includes the loss of Universal Bank of EUR 13 million.





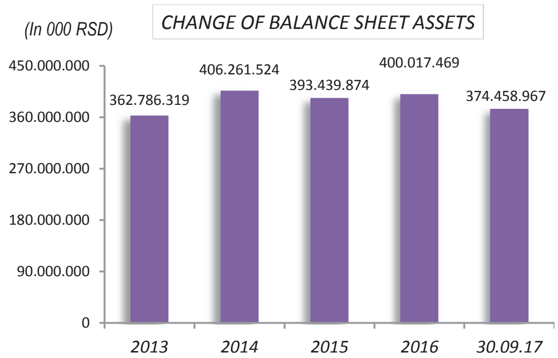
Cost / Income ratio continues the downward trend after the increase in 2016, and amounts to 68.6% (as of September 30, 2017).

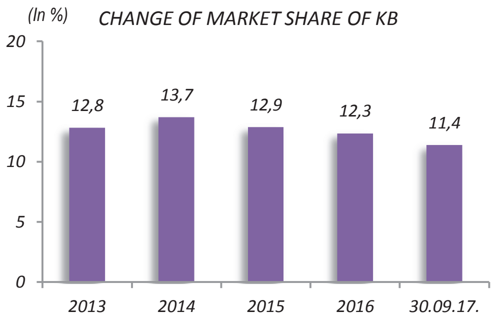
37 NBS, Banking Sector in Serbia, Third Quarter Report 2017

38 NBS, Banking Sector in Serbia, Third Quarter Report 2017

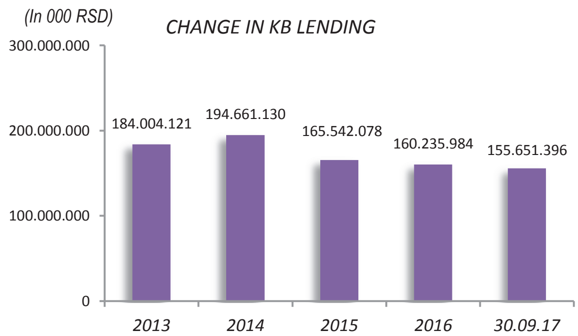
3.2. Financial position of KB compared to banking sector

With the amount of balance sheet assets of RSD 374,459.0 million, as of September 30, 2017, KB took 11.4% of the Serbian banking market and retained the second position according to this parameter. The Bank had an identical position at the end of 2016.



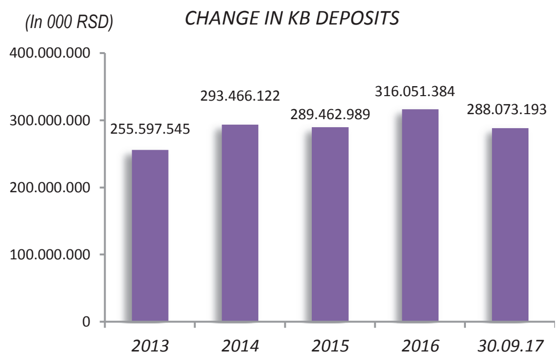


Loans and receivables of the Bank on 30.09.2017, in the amount of RSD 179,787.7 million, accounting for 8.6% of the market share. The result is slightly weaker than the end-2016 achievement, when the Bank had 9.8% share in the banking sector (RSD 191,012.8 million).



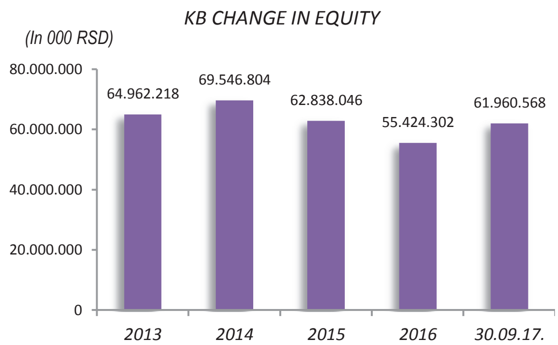
Note: Due to comparability with previous years, the graph shows the Bank's loans without other loans, advances and receivables

The position of collected deposits and other liabilities also slightly changed during the first three quarters of 2017. The share of deposits and other liabilities of the Bank in total deposits of the banking sector amounted to 11.8% as of September 30, 2017 (RSD 298,294.8 million), while at the end of 2016 it amounted to 13.1% of total deposits of the banking sector (RSD 330,456.3 million).



Note: Due to comparability with previous years, the chart shows deposits of the Bank without other liabilities and credit lines

Observing the position of total capital, the Bank increased its share in the banking sector from 8.8% (RSD 55,424.3 million at the end of 2016) to 9.3% of the banking market on 30.09.2017(RSD 61,960.6 million).



4. *ORGANISATIONAL STRUCTURE AND BODIES OF KB*

4.1. KB Board of Directors

The Bank's Board of Directors was established in accordance with the Law on Banks Law and the Agreement between the shareholders - the Republic of Serbia and a group of international financial institutions (EBRD, IFC, DEG, and SwedFund) and consists of nine members, including the president, three of which are independent directors. The members of the Board of Directors of the Bank are appointed by the Shareholders Assembly of the Bank to a period of four years.

The responsibilities of the Bank's Board of Directors are defined in Article 73 of the Law on Banks and Article 27 of the Bank's Statute. The members of the Board of Directors of the Bank on December 31, 2017 were as follows:

FIRST AND LAST NAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	FUNCTION
Dr Vladimir Krulj	*Republic of Serbia*	*President*
Mirijana Ćojbašć	*Republic of Serbia*	*Member*
Lilja Jovanović	*Republic of Serbia*	*Member*
Andreas Klingen	*EBRD*	*Member*
Philippe Delpal	*EBRS*	*Member*
Khosrow Zamani	*IFS*	*Member*
Olivera Matić Brbora	*Member independent of the Bank*	*Member*
Mila Korugić Milošević	*Member independent of the Bank*	*Member*
Mats Kjaer	*Member independent of the Bank*	*Member*

4.2. Executive Board of KB

The Executive Boards consists of the President of the Executive Committee, the Deputy President of the Executive Board and at least three members. The term of office of the members of the Executive Board of the Bank, including the President and the Deputy President, is four years from the date of appointment.
The responsibilities of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Statute.
The members of the Executive Board of the Bank as of December 31, 2017 were:

FIRST AND LAST NAME	FUNCTION
-	*President*
Slađana Jelić	*Deputy President*
Dragiša Stanojević	*Member*
Dr Dejan Tešić	*Member*
Miroslav Perić	*Member*

4.3. Committee for Monitoring Operations of the bank (Audit Committee)

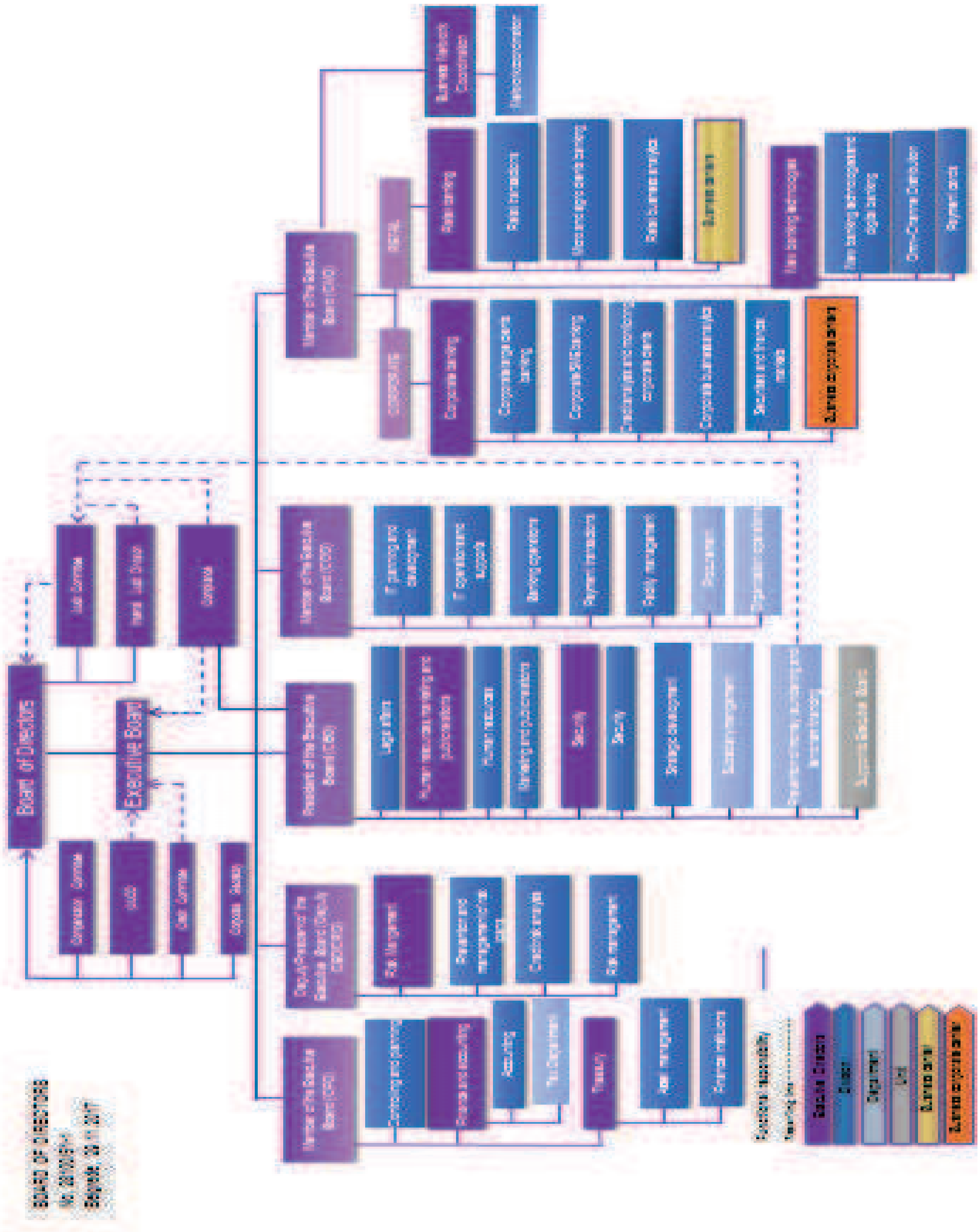
The Committee for Monitoring the Bank's Operations consists of three members, two of which are members of the Board of Directors of the Bank, who have appropriate experience in the field of finances. One member of the Committee for Monitoring is the is the person independent of the Bank. The members of the Committee are elected for a period of four years.

Duties of the Audit Committee are defined by the article 80 of the Law on Banks and Article 34 of the Bank's Statute.

As of December 31st 2017, the members of the Audit Committee were:

FIRST AND LAST NAME	FUNCTION
Mats Kjaer	*Chairman*
Andreas Klingen	*Member*
Milena Kovačević	*Member*

4.4. KB'S Organisational Structure



Note: Organisational structure of KB on 31.12.2017.

4.5. Regional distribution of the Bank's business network

BUSINESS NETWORK OF THE BANK

	BUSINESS CENTERS	SEAT
1.	BC Belgrade 1	Svetogorska 42-44, Belgrade
2.	BC Belgrade 2	Svetogorska 42-44, Belgrade
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Novosadskog sajma 2, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Kneza Miloša 27

	CORPORATE BUSINESS CENTERS	SEAT
1.	CBC Belgrade	Svetogorska 42-44, Belgrade
2.	CBC Užice	Gradski trg bb, Valjevo
3.	CBC Kragujevac	Save Kovačevića 1, Kragujevac
4.	CBC Niš	Episkopska 32, Niš
5.	CBC Novi Sad	Korzo 10, Subotica

The development of the banking sector, the strengthening of competition among banks, the emergence of new banks, services and products imposed the need to reorganize the existing business network of the Bank in order to create an efficient network that will give adequate contribution to the Bank's sustainable and profitable operations in the coming period.

In accordance with the previous Strategies and Business Plans, in the end of 2016, the Bank started restructuring its business network by establishing the first two Business Centres (Belgrade 1 and Belgrade 2).
During the reorganization process, the Bank's business network, one of the largest business networks in the banking sector, has been restructured in the way that the previous 24 branches formed Business Centres and Corporate Business Centres. The Bank retained a network of branches, which are classified in several types, depending on the type of services and products they offer to clients (at the end of 2017, the Bank had 204 branches, which is less by one at the end of 2016).

The process of reorganization of the business network was realized very successfully, in the short term and without any influence on the current operations of the Bank.
After the reorganization, from mid-April 2017, the Bank's business network was divided into Corporate Business Centres (for dealing with corporate clients) and Business Centres (for dealing with retail clients) as shown in the previous table.

During the establishment of Corporate Business Centres, the Bank applied the territorial and principle of approximately balanced market potentials.

The territorial principle applied during the establishment of Corporate Business Corporative was also applied in the establishment of Business Centres, with business activities in the retail segment in Belgrade being divided into "Belgrade 1" and "Belgrade 2". This is done due to the size of this market, which includes the capital area with suburban municipalities (Obrenovac, Stara Pazova, Lazarevac, Mladenovac, Sopot, Surčin) and the area of Pančevo, Kovin and Smederevo.

The changes in the organization of the network created preconditions for improving / accelerating the loan approval process in transactions with legal and natural persons. The analysis and processing of loan applications, as well as the decision on granting loans to legal entities, from mid-April 2017, is done centrally.

In the retail segment, special attention was devoted to ways to reduce the time needed to decide on credit applications, without affecting the quality of the decisions made. The goal of the Bank is to approve the majority of retail loans as soon as possible through the application of standardized credit analysis. In this way, only part of the loan applications from the retail segment (non-standard retail loan applications, loan applications of micro clients and agricultural producers) would require a slightly longer period of time for the decision to approve the loan.

The sales activities of the business network were additionally supported through a successful centralization of support operations. In the process of centralization of support operations, the extensive scope of indebtedness was transferred from the level of Business Centres and Branches to the bank's Head Office. Firstly, the centralization was implemented in national and international payment transactions, accounting operations, administrative and technical operations.

The new organization of Business Centres has also allowed changes in the organization of cash transactions. After the full implementation of the Corporate Business Centres and Business Centres, KB organized and received cash only in 5 regional treasuries, which led to faster and more efficient work, with lower operating costs.

The new organization of the network, the changes in the loan approval process, the centralization of work, as well as the changes in the organization of other business processes and activities resulted in:

- Focusing of employees in Business Centres and Corporate Business Centres only on sales activities with a high degree of productivity;
- Creating preconditions for more effective decision-making about loan applications (shortened time for reviewing loan applications);

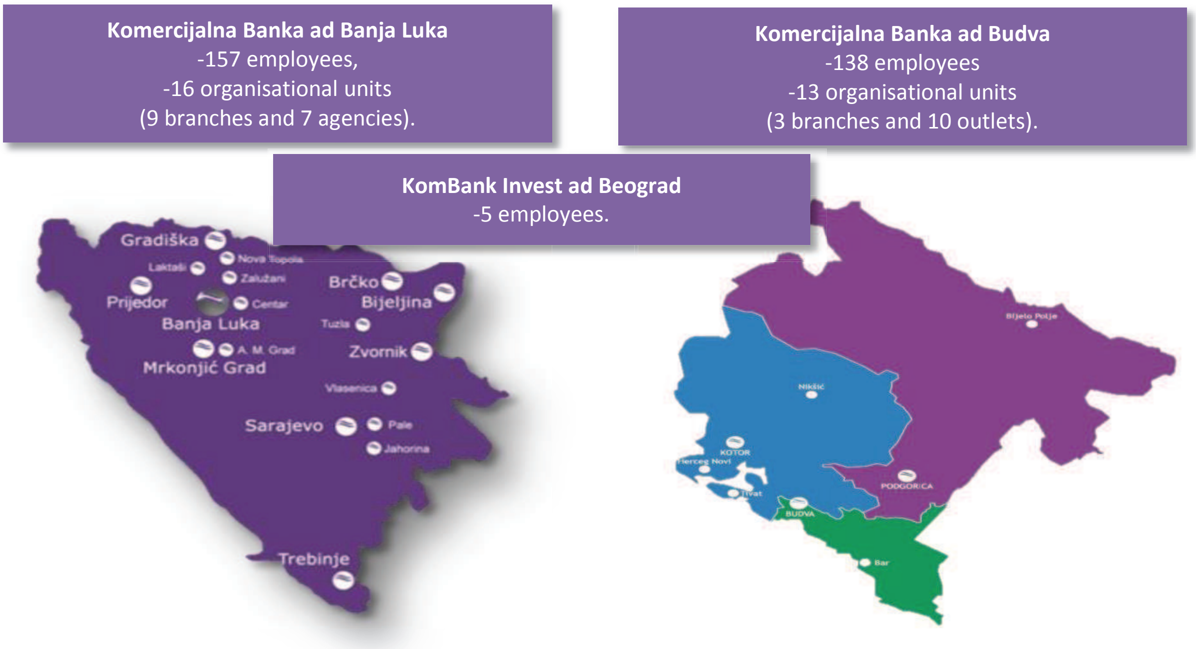
- Further improvement of the risk management process and
- Reduction of operating costs.

5. *KB BRANCHES*

In accordance with the new business network organization, which was fully implemented since mid-April 2017, the Bank conducts its business activities through a network of Business Centres, Corporate Business Centres, one branch office (Kosovska Mitrovica) and network of outlets, whose number is changing and adjusting to the market needs. Since mid-April 2017, business operations have been performed at the Bank's Seat in Belgrade, 5 Corporate Business Centres (intended for dealing with corporate clients), 6 Business Centres (intended for dealing with retail clients), 204 outlets and branch of Kosovska Mitrovica (organized for doing business in the territory of Kosovo and Metohija).

The Bank also has three subsidiaries that together make up the Komercijalna Banka ad, Belgrade, as follows:

1. Komercijalna Banka ad, Budva in the Republic of Montenegro (100% ownership),
2. Komercijalna Banka ad, Banja Luka in Bosnia and Herzegovina (99.998% of ownership) and
3. KomBank INVEST ad, Belgrade, investment fund management company (IFMC) (100% ownership).



5.1. Important transactions with related persons

The total exposure to persons related to the Bank as at 31 December 2017 amounted to RSD 558.5 million, which compared to the regulatory capital of RSD 51,130.7 million accounted for 1.1% (the maximum value of total placements to all persons related with the Bank according to the Banking Law, is 25% of the Bank's capital).

The largest part of the exposure to persons related to the Bank (in accordance with the methodology of the National Bank of Serbia regarding presentation of exposure to persons related to the Bank) as of December 31, 2017 is the amount of RSD 417.6 million or 0.8% of regulatory capital of the Bank . The data stated relate to investments in KomBank Invest ad Beograd.

Pursuant to Article 37 of the Law on Banks, persons related to the Bank have not had any loans approved under conditions that are more favourable than conditions approved to other persons, unrelated to the Bank, in other words, persons not being employed by the Bank.

Further review of the persons related to the Bank can be found in Notes to the financial statements.

6. FINANCIAL POSITION AND PERFORMANCE RESULTS OF KB IN 2017

6.1. Introduction

The Bank's operations in 2017 suffered a major impact on the continuation of the privatization process and, in that respect, on the activities of the Bank's management. The biggest change is the reorganization of the Bank's business network that has been in use since April 2017. In the past year, a great deal of attention was paid to managing credit risk (and other risks in business) in order to achieve the highest quality loan portfolio. The negative result reported in 2016 did not affect the Bank's safety, stability and liquidity. The management policy of the Bank allocating a significant part of the earned profit to reserves in the previous period gave the possibility to cover the entire loss from 2015 and 2016 without reducing the share capital. The realized net interest income and fees in 2017 was slightly lower than in the end of 2016.
The results of the Bank's operations were also significantly influenced by the NBS, following the Decision on accounting write-off of balance sheet assets that has been applied since September 2017. The decision stipulates that part of the balance sheet assets of low level of collectability be transferred to the off-balance sheet of the Bank. Transfers to off-balance sheet items refers to the non-performing loans, when the calculated amount of loan impairment, which the bank recorded in favour of impairment provision, comes to 100% of its gross book value.

Balance Sheet Sum

At the end of 2017, the balance sheet total of the Bank (net assets) amounted to RSD 369,183.5 million (EUR 3.1 billion), representing a decrease of 7.7% in relation to the previous year. The focus of the Bank's operations continues on sustainable business, growth of profitability, maintenance and further improvement of the loan portfolio quality, finding new sources of income and more efficient use of available funds.

Funding sources

In 2017, the growth of retail foreign currency savings of about EUR 33.1 million continued, which is the main funding source of the Bank. Deposits from legal entities decreased by RSD 25,752.5 million compared to the end of 2016.

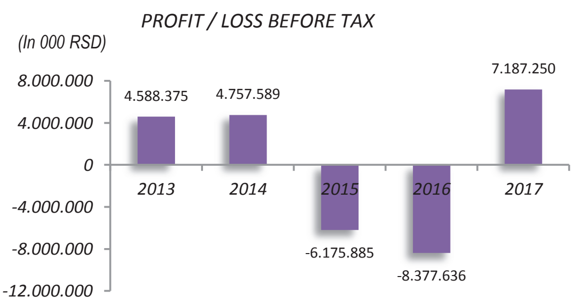
Deposits from banks and other financial organizations decreased by RSD 338.1 million.
During 2017, the Bank paid back to foreign creditors the sum of around EUR 42.9 million, while the amount of newly taken credit lines was negligible. The balance of liabilities of the Bank at the end of 2017, based on the received credit lines, amounted to RSD 7,392.3 million and compared to the end of 2016 it was reduced by RSD 5,591.9 million.
On December 31, 2017, the Bank has no subordinated liabilities in the balance sheet. In December of the same year, a subordinated loan of EUR 50.0 million, taken at the end of 2011 in order to increase the capital, was repaid.

Loans and advances

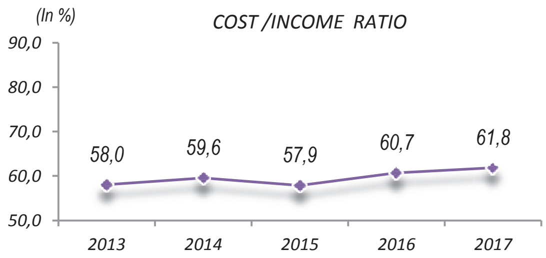
During the previous year, the Bank recorded a decrease in corporate lending in the amount of RSD 2,358.2 million or 3.2%. In the segment of retail business, lending increase was achieved to the amount of RSD 6,189.8 million. Cash loans and housing loans dominate in the structure of loans. KB continued to invest a significant part of the liquid assets in securities, despite the decrease in this position. At the end of the previous year, the amount of RSD 117,288.8 million was invested in securities, which is a decrease of RSD 19,078.0 million compared to the same period in 2016.

Profitability

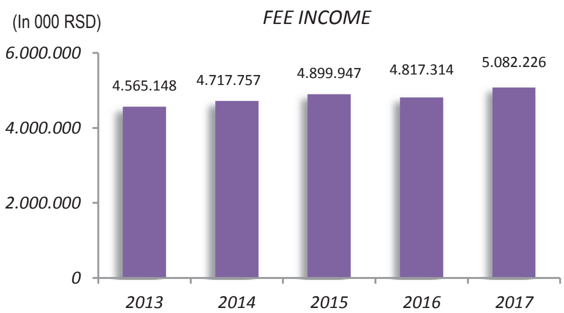
After the year 2015 and 2016, when the Bank recorded a negative result (due to the above-average expenses for loan impairment and credit risk bearing off-balance sheet items totalling RSD 27,916.1 million), at the end of 2017, the Bank achieved a positive result.



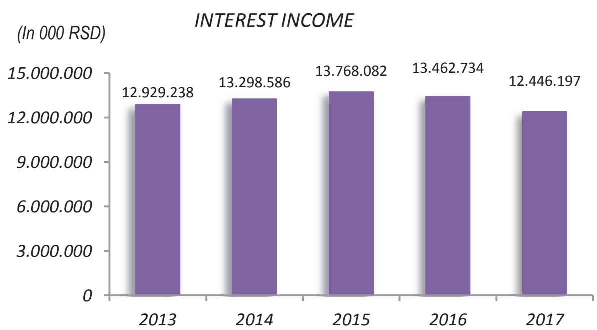
With a slight growth in the Cost / Income ratio (61.8% at the end of 2017 compared to 60.7% at the end of 2016), net income for impairment of loans and credit risk bearing off-balance sheet items was recorded in 2017 (RSD 17.9 million) as opposed to the previous years when the net expense was recorded.

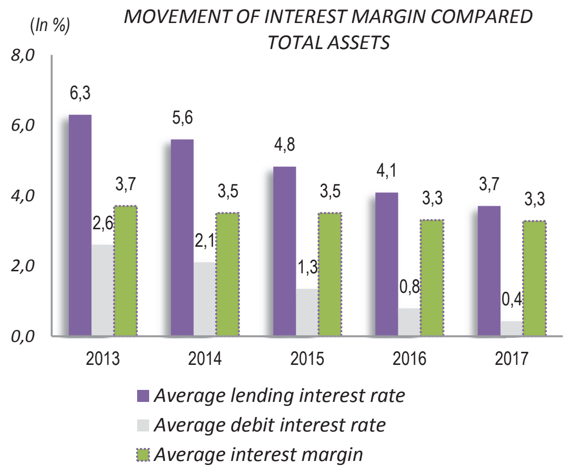


Cost / Income ratio registered slight growth at the end of 2017 compared to 2016.

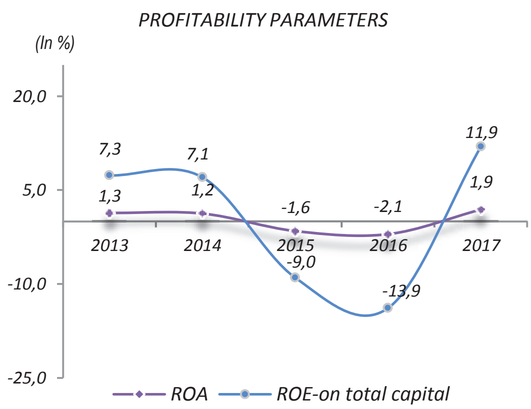


In 2017, the interest income declined by 7.6% compared to the same period in 2016. At the same time, fees and commission income increased by 5.5%.





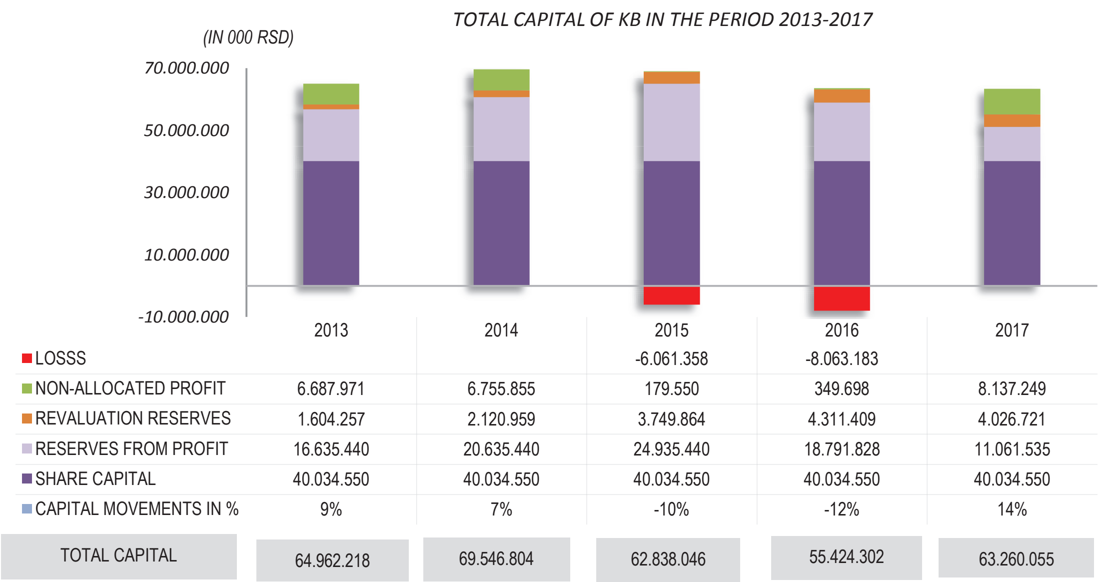
During 2017, the trend of decreasing in both lending and debit interest rates continued, as well as during 2016. The optimization of the price and structure of the sources of funds, as well as the more efficient loan approval policy, resulted in an interest margin that was achieved in accordance with the adopted business plan for 2017 (3.3%).



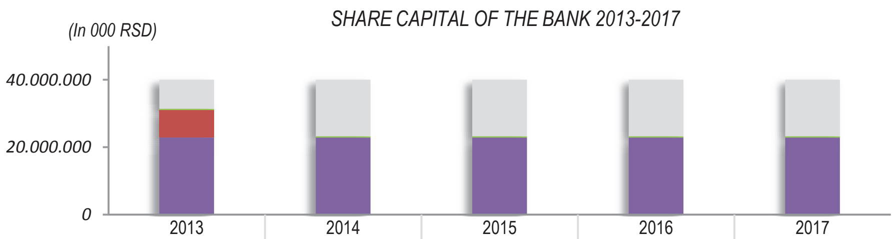
Capital of KB

Changes in equity in the period from 2013 to 2017:

DESCRIPTION	2013.	2014.	2015.	2016.	2017.
KB CAPITAL (In 000 RSD)					
Share capital	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550
Reserves from profit	16.635.440	20.635.440	24.935.440	18.791.828	11.061.535
Revaluation reserves	1.604.257	2.120.959	3.749.864	4.311.409	4.026.721
Non allocated profit	6.687.971	6.755.855	179.550	349.698	8.137.249
Loss	-	-	6.061.358	8.063.183	-
TOTAL CAPITAL	64.962.218	69.546.804	62.838.046	55.424.302	63.260.055



At the end of 2017, the total capital of the Bank is RSD 63,260.1 million and it is increased by 14.1% compared to the end of 2016. In the period from 2011 to 2017, the Bank's total capital increased by 42.9%. In the same period, share capital increased by 40.7% or RSD 11,572.0 million. So far, the Bank has increased share capital based on two issues of preferential convertible shares (in 2010, RSD 11,400 million and 2012, RSD 11,572 million). For an extensive time period, the Bank allocated most of its generated profit to reserves for estimated losses in order to maintain business safety and capital adequacy, i.e. to protect share capital from potential losses, but also to increase core capital. Over the past five years, the Bank has been able to firstly increase its total reserves, from generated profit and on the account of revaluation, in order to use them to cover the losses declared in 2016 and 2015. Profit reserves at the end of 2017 were reduced compared to 2016 for RSD 7,730.3 million, as the bank used part of its reserves to cover the recorded loss from 2016.



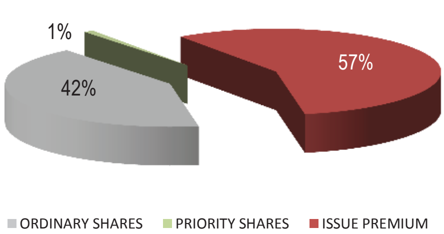
	2013	2014	2015	2016	2017
ORDINARY SHARES	8.709.310	16.817.956	16.817.956	16.817.956	16.817.956
PRIORITY SHARES	373.510	373.510	373.510	373.510	373.510
PREVERRED CONVERTIVLE SHARES	8.108.646				
ISSUE PREMIUM	22.843.084	22.843.084	22.843.084	22.843.084	22.843.084
GROWTH RATES IN %	0%	0%	0%	0%	0%
TOTAL SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550

The ordinary (regular) shares of the Bank are traded on the Belgrade Stock Exchange Standard listing since 2010. During 2014, the conversion of preferential convertible shares into ordinary shares was made and since then there have been no changes in the share capital structure. As at 31 December 2017, the Bank has 16,817,956 ordinary shares (regular) and 373,510 preferred (preferential) shares of RSD 1,000 value per share. At the end of 2017, 1,194 KB shareholders hold ordinary shares, and 635 shareholders hold priority shares.

KB'S shareholders as of December 31, 2017:

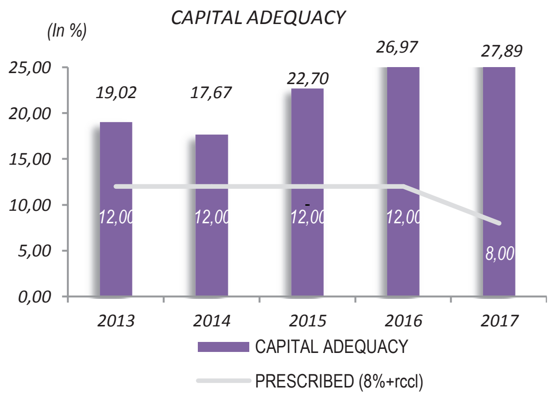
SHAREHOLDERS	ORDINARY SHARES	% OF STAKE	PRIORITY SHARES	% OF STAKE	TOTAL SHARES	% OF STAKE IN SHARE CAPITAL
Republic of Serbia	7.020.346	41,7	-	0,00	7.020.346	40,8
EBRD	4.109.440	24,4	-	0,00	4.109.440	23,9
IFC	1.706.810	10,2	-	0,00	1.706.810	9,9
DEG	772.850	4,6	-	0,00	772.850	4,5
SWEDFUND	386.420	2,3	-	0,00	386.420	2,3
OTHER	2.822.090	16,8	373.510	100,00	3.195.600	18,6
TOTAL	16.817.956	100,0	373.510	100,0	17.191.466	100,0

SHARE CAPITAL STRUCTURE AS OF 31.12.2017.



Capital adequacy

The Bank's capital adequacy ratio at the end of 2017, despite still considerable reserves, comes to 27.89%, which are the best indicators of the Bank that managed to keep adequate capitalization. During 2017, the Bank also fulfilled all the operating parameters prescibed by the Law on banks and met all obligations, this being a reliable indicator of stable and safe operation.



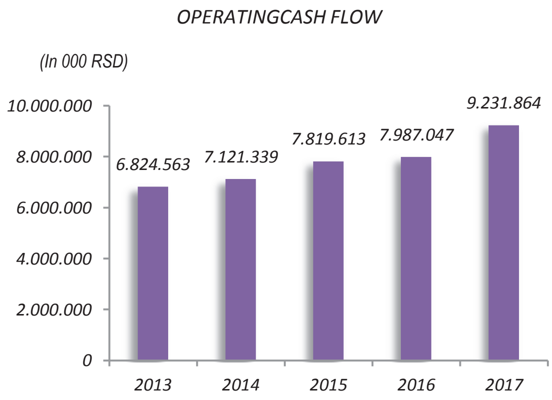
Performance indicators prescribed by law

No.	ITEM	PRESCRIBED	2017.	2016.	2015.	2014.	2013.
1.	CAPITAL ADEQUACY INDICATOR(CAPITAL / RISK ASSETS); * REQUIREMENTS FOR COMBINED CAPITAL (BUFFER) LAYER	Min 8% +rccl*	27,89%	26,97%	22,70%	17,67%	19,02%
2.	INDICATOR OF INVESTING IN ENTITIES THAT ARE NOT PART OF THE FINANCIAL SECTOR AND FIXED ASSETS	Max 60%	14,96%	17,47%	23,13%	27,60%	24,67%
3.	KB'S LARGE EXPOSURE INDICATOR	Max 400%	34,96%	38,48%	79,76%	160,59%	97,78%
4.	FX RISK INDICATOR	Max 20%	4,40%	2,96%	10,60%	2,90%	2,12%
5.	LIQUIDITY INDICATOR (monthly, last day of the month)	Min 0,8	4,30	2,86	2,73	2,84	3,45

Note: In accordance with the NBS regulations, the Bank calculates a protective (buffer) layer for the preservation of capital, a protective layer of capital for systemically significant banks, and a protective layer of capital for structural systemic risk.

Operating Cash Flow

At the end of 2017, the operating cash flow in relation to the same period in 2016 was higher by RSD 1,244.8 million (an increase of 15.6% was achieved). In the observed period, the growth of inflows from fees by RSD 436.3 million or 7.0% was recorded, while inflows from interest decreased in the same period by RSD 2,133.6 million or 12.1%. Reason for the above can be found in further reduction of lending interest rates. On the side of cash outflow from operating activities, interest withdrawals were at a lower level by RSD 2,221.5 million, i.e. decreased by 51.7%. The reason for the decrease in interest outflow lies in the reduction in the average interest rate on term deposits.



Description of changes in business policies of the company

During 2017, the Bank did not make any changes in the Business Policy. Business policy of the Bank was adopted at the Shareholders Assembly of the Bank on 26.01.2012.

The business policy determines the basic principles of business and defines the operations performed by the Bank in order to fulfil the business results and priorities defined in the Bank's current Strategy and Business Plan, which is based on:

- KB's position on financial market and won customers' confidence in the bank;
- Projections of key parameters of macro-economic policy and
- Development objectives of the bank.

The Bank's business policy is also harmonized with the Risk Management Strategy and the Capital Management Strategy, as well as the policies for managing individual risks.

The Bank operates independently, according to market principles, applying the principles of liquidity, profitability and security, while respecting laws, other regulations and general principles of banking operations in achieving its objectives in a socially responsible manner, in accordance with the basic values and business ethics.

Corporate governance rules

The Bank's corporate governance rules are based on appropriate legal regulations (primarily the Law on Banks and Law on Companies).

The competencies and powers of all the Bank's bodies (Shareholders Assembly, Board of Directors, Executive Board, Audit Committee, Assets and Liabilities Management Committee, Credit Committee) are based on the relevant legal regulations and are defined by internal acts (Memorandum on Association, Statute of the Bank, operating rules of the Bank's bodies and other internal acts).

In accordance with the Decision made by the KB's Executive Board in April 2003, the Bank applies in its operation The Code of Corporate Governance of the Serbian Chamber of Commerce ("Official Gazette of the Republic of Serbia", No. 99/2012), adopted by the Assembly of the Serbian Chamber of Commerce.

Corporate governance rules have been implemented through internal acts of the Bank and there are no deviations in their application.

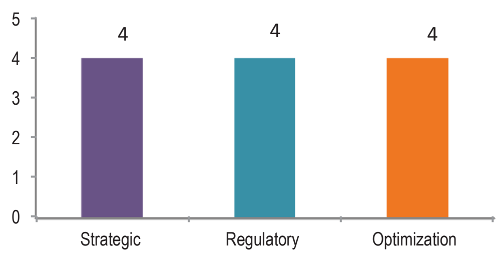
The Code of Corporate Governance has established the principles of corporate practice which is abided by the holders of KB's corporate governance, both in business and in their personal behaviour. The goal of the Code is to introduce good business practices in the field of corporate governance, the equal impact of all stakeholders, existing and potential shareholders, employees, clients, banks, state etc. The ultimate goal is to ensure the long-term and sustainable development of the Bank.

The text of the Corporate Governance Code is publicly available on the web site of the Serbian Chamber of Commerce (www.pks.rs/PoslovnoOkruzenje.aspx?id=1412&p=3) as well as on the Bank's website (www.kombank.com/korporativno-upravljanje).

Project Management and Project Portfolio Management

In 2017, a total of 12 projects and 77% of the planned budget for the project portfolio were realized, while on December 31, 2017, 8 projects from the project portfolio of the Bank continue their realization in 2018.

PROJECTS REALIZED IN 2017



All key projects planned by the Strategy and Business Plan of the Bank for 2017 were realized, both in terms of their scope and in terms of planned short-term realization:

- **Reorganization of business network –** The project successfully and in very short time, without affecting the Bank's operation, reorganized the complete operating process of 24 branches (with a network of over 200 outlets) with the formation of 6 Business and 5 Corporate Business Centres aimed at managing, controlling and improving sales and service activities towards clients. Workplace classification and optimized management structure was standardized by more than 50%, centralized network management in the business sectors of the Bank was implemented. Standardization of the branches was carried out with a clear division of tasks and targets for the employees working in sales departments. In order to optimize the process, a large number of operational processes that had been carried out in KB's branches were centralized, "outsourced" and improved. Centralization covers all retail, corporate operations, national and international payment transactions, accounting, legal affairs as well as all administrative and technical-operational activities, which has improved a large number of operational processes. Centralization of jobs led to a reduction in risk, increasing employee productivity, reducing operating costs, improving business processes and establishing a more adequate control system. In addition, the project reorganized the Treasury operations of the Bank with a decrease in the number of treasuries from 24 treasury locations to only 5 regional treasuries, thereby optimized operating costs in cash operations.

The realization of this project laid out strong foundations for further modernization of Komercijalna Banka's operations.

- **Middle Office centralization** – The project redefined the work of the credit committees of the Bank and improved the efficiency of the credit process in the decision-making part (the approval period for standard cash loans is shortened) with a significant reduction in the number of participants in the decision-making process. A unique decision-making process for retail products has been introduced, which accelerated the loan approval process in this business segment. Over 95% of decisions for this client group were made by lower decision making levels of the Bank. Credit analysis has been standardized and stronger sales activities have been facilitated.
- **Centralization of back office activities** – In order to support the process of reorganization of the business network, a successful centralization of national and

international payment transactions was carried out, optimizing centralized processes, increasing the productivity of employees at the Bank's head office by more than 50%, with the reduction of operational risks. All processes are involved, including the opening of accounts of legal entities and entrepreneurs, processing security instruments, complaints, etc. After centralization, there was also an increase in the share of clients' orders delivered through eBank, which additionally optimized the engagement of employees in the Bank's network, and provided the customers with more efficient services.

- **Digitalization program** – In the continuation of the project implementation from 2016, a digital office ("KOMeCENTAR") was introduced, which enabled the use of a set of the existing services to clients, so that they could avoid coming to the premises of the Bank. "KOMePAY" digital payment card has been introduced on a mobile device, providing customers with NFC technology to pay for goods and services at POS terminals equipped for non-contact payment; thus, the clients do not have to physical have payment card for payment. Additional improvements of eBank and mBank applications were implemented, and two-currency ATMs were introduced, which significantly expanded the offer of the Bank's services through the digital sales channel.

In accordance with the regulations that came into force in 2017, the following regulatory projects were successfully implemented:

- **Implementation of IFRS 9 standard** – According to the implementation of the new standard since January 2018, during 2017 major part of the project was realised, including: amended methodology of valuation impairment and preparing the new methodology on assessment at fair value, analysed the KB's portfolio, implemented analysis of current KB's portfolio, adopted regulations explaining contracted clauses that apply in operation. Prepared and changed accounting policies and regulations, and all systemic changes, thus ensuring successful implementation of the provisions of standard at the beginning of 2018.
- **Basel standards implementation** –According to the new Decision on Capital Adequacy of the National Bank of Serbia, through which the provisions of Basel 3 standard were implemented in the part of credit, market, operational and liquidity risks and capital, changes in the bank's regulations were implemented, involving the application solution based on modern Oracle application solution OFSAA for calculating capital requirements for credit and market risk on the level of the Bank and Group.

Other important realized projects:

- **Implementation of MDS solution 4.11.** – The project has enhanced the system for identification and automated monitoring of suspicious transactions in subsidiaries, thus establishing unique legal and international standards in the field of prevention of money laundering and terrorist financing at the level of the Bank and the Group.
- **Improvement of "storage" and SAN infrastructure** – A new "storage" infrastructure was installed, whereby the Bank, along with the optimization of maintenance costs, also passed on technologically advanced devices that contributed to better performance but also the higher capacities of the Bank's information system.
- **Implementation of ISO 20000-1 standard** – In accordance with the strategic orientation of the Bank to continue with its direction towards service-oriented organization with clearly defined IT processes, the realization of the project Implementation of ISO20000-1 standards was started in 2017, with the goal to ensure the establishment of the IT Management System and the Bank's Certification according to the ISO20000-1 standard. The certification body carried out GAP analysis of the Bank's compliance with the stated standard, which showed an extremely high level of maturity of the IT process. In the course of 2018 there will be final compliance with the requirements of the standards, as well as the Bank's certification.

6.2. Corporate Operations

Market-key tendencies

The downward trend in lending interest rates since 2014 has continued in 2017, largely as a result of competition between banks and, to a lower extent, due to decrease in the lending pricing. Historically, the lowest lending interest rates were recorded in 2017 (loans with a currency clause below 1.4%; dinar loans below 3.0%).

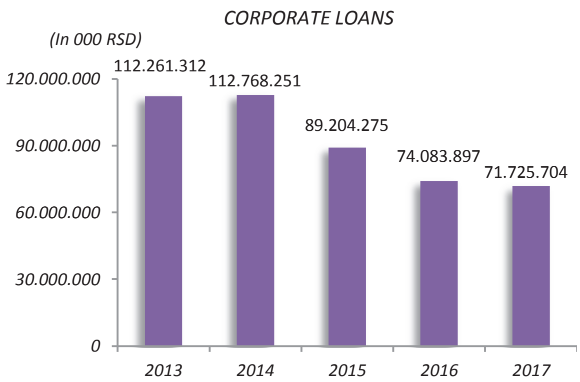
Banks' standards for newly approved loans in the corporate sector were mitigated in 2017, primarily in terms of small and medium enterprises, and to a lesser extend for large enterprises. Observed by maturity structure and currency, mitigation of the standard was also observed in short-term and long-term RSD lending to corporate entities, and short term lending to corporate entities in FX sign.

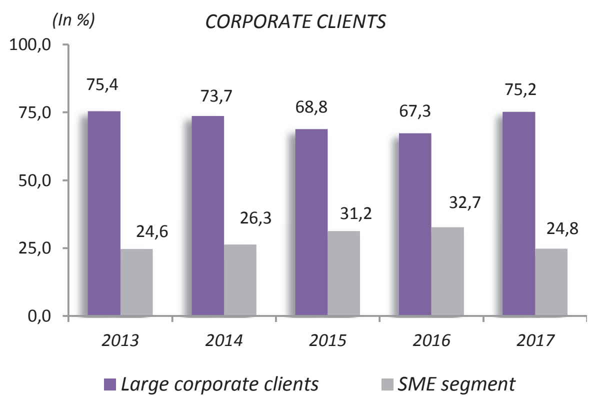
Banks also show greater willingness to take risks when lending to the corporate entities.

A tendency of mild increase of corporate sector's loan demand in 2017, primarily by large companies. Growth of demand was influenced by the higher need to finance working funds and refinance the existing liabilities. There were no economic subsidies in both 2017 and 2016.

Loans[39] - KB Operation

Newly approved loans in 2017 were higher by RSD 4.1 billion compared to 2016. The newly approved loans were by RSD 4.1 billion higher in 2017 compared to 2016. There was a growth of share of the large corporate clients in the bank's portfolio by 67.3% to 75.2% due to the increase of loan approval in this segment by 63.8%.

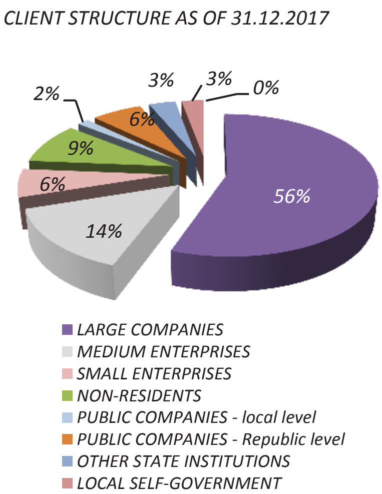




The interest rate on loans indexed in EUR is still significantly lower in relation to loans in dinars, which, in conditions of stable exchange rate, was determining market factor for higher demand in the segment of loans with a currency sign compared to net dinar loans. Accordingly, the share of dinar loans in the portfolio at the end of 2017 remained at a low level of only 10.9%.

Early repayment of loans and continued interest rate reduction as a result of pressure from the competition caused a decrease in interest income in 2017.

In terms of competition throughout 2017, the most active were Banca Intesa a.d. Belgrade, UniCredit Banka Serbia a.d. Belgrade, Societe Generale Banka a.d. Belgrade, with occasional shares of the following banks circulating on the market: ProCredit a.d. Belgrade and Erste Bank a.d. Novi Sad. We observed more flexible approach (in terms of interest rates, maturities, required collateral instruments) of all market competitors when granting loans, compared to previous years.



Deposits [40]

Bearing in mind the strong deposit base and the constantly high liquidity of the Bank, as well as the fact that the demand for loans, despite the slight growth, was at a low level in 2017, the focus was on managing the amount and the structure of deposits, in order to optimize the price of funds and decrease of interest expenses.

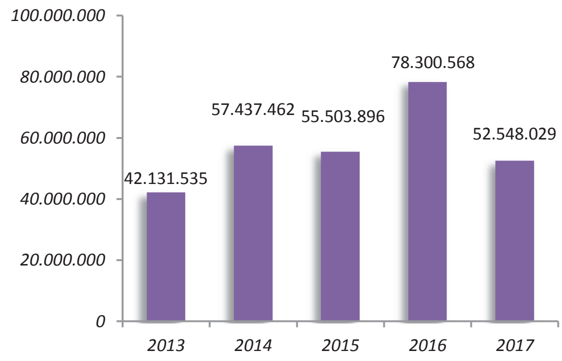
In addition, the significant limiting factor when referring to the possibility of growth of the

[39] Position of loans and advances to customers excludes other lending

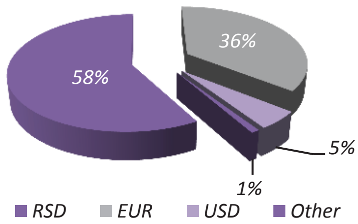
[40] Position deposits excludes other liabilities and funds acquired through credit lines

corporate sector's deposit base 2017, was the fact that due to the negative result at the end of 2016, the Bank was limited in terms of taking part in tenders and public invitations.

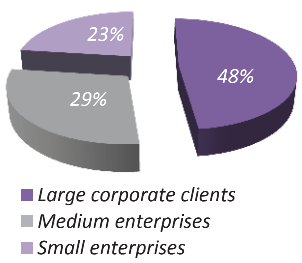
(In 000 RSD) *CORPORATE DEPOSITS*



CURRENCY STRUCTURE OF DEPOSITS ON 31.12.2017

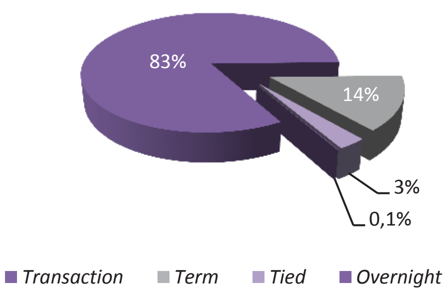


STRUCTURE OF DEPONENTS ON 31.12.2017

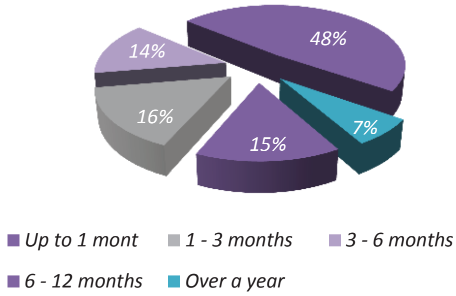


Note: The depot structure is presented based on internal client segmentation.

MATURITY STRUCTURE OF DEPOSITS ON 31.12.2017



MATURITY STRUCTURE OF TERM DEPOSITS ON 31 DECEMBER 2017



6.3. Retail operations

In the conditions of a very dynamic and competitive market, retail business achieved significant results in 2017. The focus was on the growth of lending and generation of net income.

By directing all our attention to the client, we have introduced a number of innovative products, new technological solutions, improved procedures and increased their efficiency.

Loans – Operation of the Bank

The growth of retail loans has been achieved thanks to the constant innovation of product offerings in order to adapt to market demands and improve competitiveness. In 2017 RSD 39.2 billion was realized, which is 24% more than in 2016.

The achievement grew in all business segments. The major increase was generated in **cash loans** (32%), primarily owing to the adjusted regular offer of the Bank as well as the special offer for specific client groups. The offer in this segment is constantly changing and adapting during the years, as this is the most attractive segment of the market in the retail segment. The bank completed its offer with dinar cash loans with insurance - CPI. The offer for pensioners, as one of the most important categories of clients, was also innovated in terms of extending the terms and increasing the maximum amount. A new segmentation of clients has been carried out, so that each client gets optimal conditions, and a special offer has been created for the most important clients of the Bank.

In the **housing loans** segment, we generated the increase by 6%, firstly due to new approval conditions, which were considerably more favourable than the last year (regular offer with more favourable conditions started at the end of

February 2017). Additionally, and taking into account the current trend of falling interest rates on the market, the Bank has enabled the existing credit-worthy clients to reduce the interest rate on loans in repayment in order to preserve the quality and the amount of the portfolio.

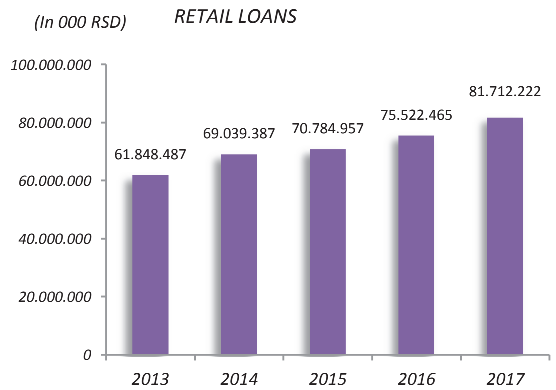
For a second year in a row, the Bank approved subsidized loans to professional military personnel, which gradually increased lending to this segment of clients.

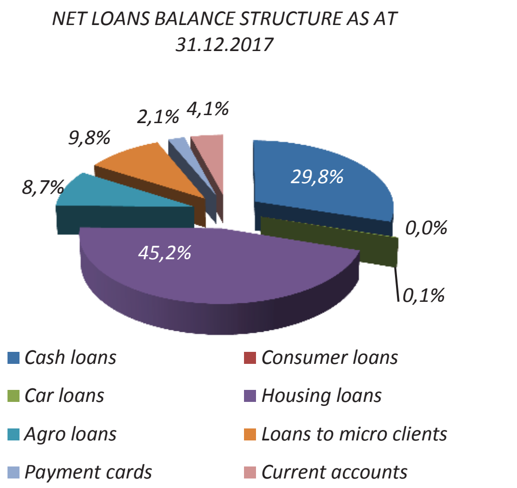
In agricultural business, we achieved growth of **agro loans** by 26%, using the effect of regular offer, special and fair-related loans, subsidized loans in cooperation with the Ministry of Agriculture, Forestry and Water Management, loans in cooperation with the local self-governments and sellers of machinery special contribution to this success was provided by an action short-term dinar loan designed to provide adequate loan support until start-up of granting the subsidized loans (in this way, clients have favourable dinar loans available throughout the year). With this, the Bank achieved a market share of 18% in the structure of all agricultural borrowers.

Increase of realization of loans in **micro business** amounted to 15%, primarily thanks to special products and products from the Bank's credit line, while the share of funds from credit lines was at minimum, unlike previous years.

In 2017, cash loans were amongst the highest in terms of realization (53%), followed by microbusiness loans (23%), farmers (14%) and housing loans (10%). Out of the total loans realized in 2017, 66% was granted without a currency clause, mostly cash loans.

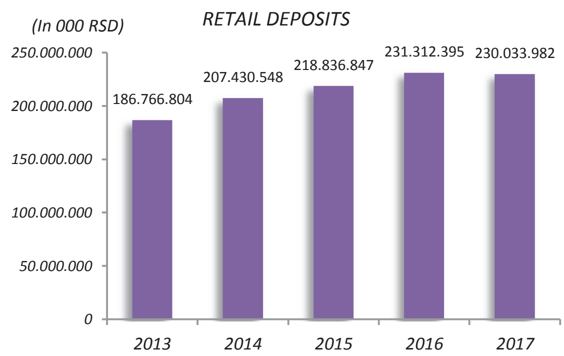
All this led to an increase in the net balance of retail loans of RSD 6.2 billion or 8.2%.





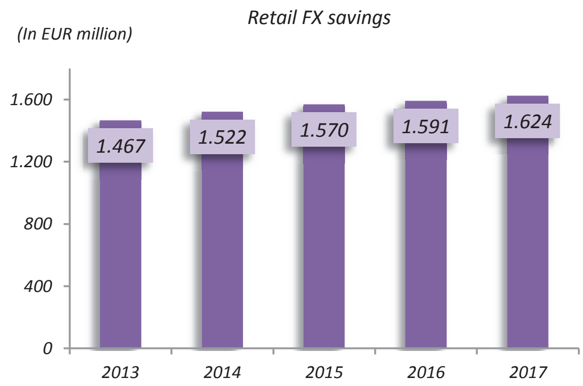
Deposits[41] - KB Operation

At the level of the banking sector, in 2017, the growth of total foreign currency deposits amounted to EUR 395 million, while the Bank, with the growth of EUR 44 million in 2017, despite the reduction of interest rates, retained the leading position on the market with slightly reduced market share which amounts to 18.76% (19.11% as of December 31, 2016)).

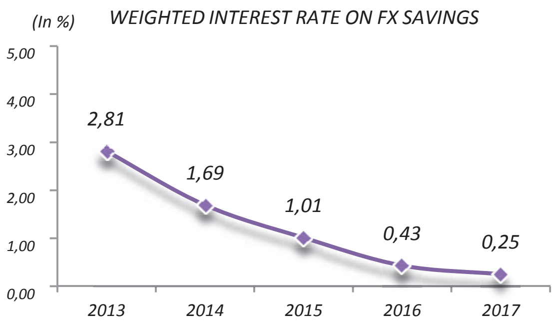


In these market conditions, the proper relationship between the price, the Bank's brand and the desired and stable deposit growth has been established.

41 Position of deposits excluded othe liabilities and funds acquired through credit lines



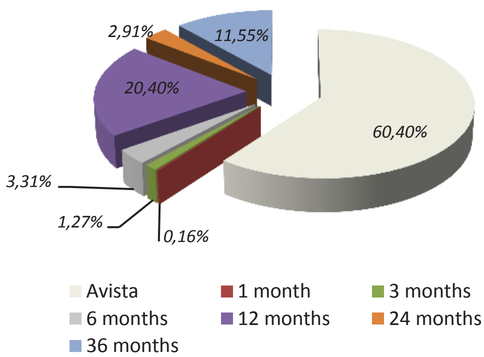
* The shown foreign currency savings do not includea dedicated foreign exchange accounts (pensioners) and entrepreneurs



*Presentd WIR on saving accounts excludes dedicated FX accounts (pensioners) and entrepreneurs

Retail deposit prices continue to fall in line with market conditions. The bank is still perceived by the clients as the most trusted institution, therefore deposits are constantly increasing although the deposit interest rate falls.

STRUCTURE OF FX SAVINGS AS AT 31.12.2017.



Share of over 12-month terms savings decreased in total FX savings and accounts for 34.9% (increased share of a vista savings, amounts to 60.4%). Deposits of up to EUR 50,000 are predominant (by number over 99%, and by amount of 76%).

Other products

Distinctive of 2017 were the activities to improve the offer of other products and services of the Bank. New products in the field of digital banking have been introduced, while the set of accounts that were introduced in December 2016 experienced a true expansion, with a total of 160,000 active set of accounts. We emphasize the good reception of account sets for the youngest clients, which creates the basis for safe business in the future. Significant activities have been dedicated to the further development of bank insurance activities in order to offer more complete financial services to our clients at one place, and to generate additional fee income. At the end of the year, microbusiness account sets were introduced.

Business Network

In the first half of 2017, the reorganization of the Bank was completed, with the main goal of creating conditions for higher customer satisfaction by converting branches into modern sales and advisory centres.
After the reorganization of the business network, at the end of 2017, the Bank's network in the retail segment consists of 6 Business Centres and one branch (instead of the former 24 branches) and 204 outlets, whereby the Bank remained the leader of market coverage and accessibility to clients. Having in mind the needs of clients, the Bank continued to improve its customer experience by improving the appearance of branches, through moving to new premises, adapting the working hours, etc. The reorganization of the business network increased the number of sellers and sales outlets.

Profitability

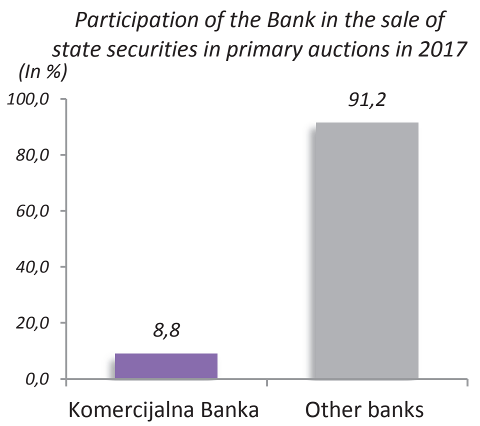
All of the business activities resulted in retail business generating total net interest and fee income of RSD 8,685.8 million, which represents a growth of 8.8% in relation to the previous year.

6.4. Asset Management

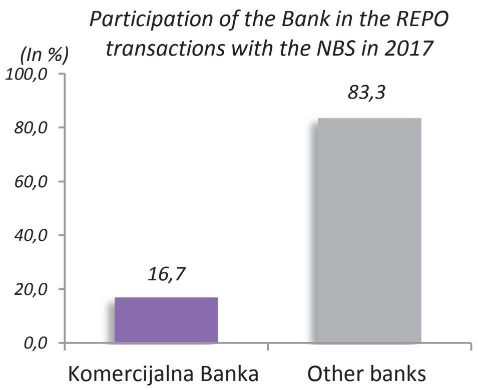
Starting from the strategic orientation of the Bank, the activity of the Treasury's business function is focused on active asset and liquidity management while ensuring the smooth functioning of the Bank and meeting the business needs of its clients.
The environment in which the Treasury's business function operated was marked by a reduction in the reference interest rate (RIR) in 2017 from 4.0%

to 3.5% successively, stabilization of interest rates at a relatively low level, decline in yields on domestic government securities and negative interest rates on EUR and CHF in foreign markets, which, given the available funds, represented a very significant challenge in liquidity management.

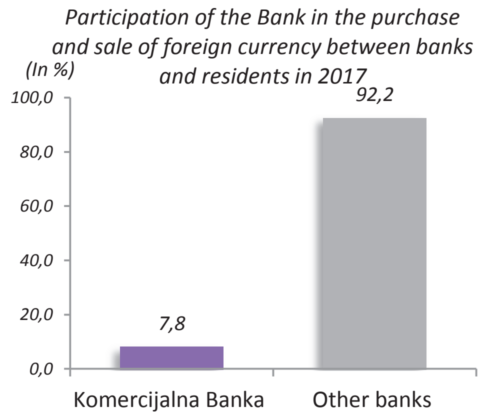
In 2017, the Bank's liquidity position was stable, and liquid assets were mainly invested in govt. securities of the Republic of Serbia, followed by seven-day reverse REPO transactions and overnight deposits with the National Bank of Serbia, as well as through short-term borrowings on the interbank market.



High participation of the Bank in primary auctions of state securities of the Republic of Serbia was followed by a very active participation in the secondary market, while taking into account the maturity structure of the source, most of the short-term dinar liquidity was invested through reverse REPO transactions with the National Bank of Serbia.



The activities of Treasury function on the foreign exchange market were also intense. In dealing with residents with a total purchase of foreign currency in the amount of EUR 976 million (an increase of 13.9% compared to the previous year) and with the total sale of foreign currency in the amount of EUR 913 million (an increase of 7.4% compared to the previous year), KB is one of the most active participants in the foreign exchange market.



At the end of 2017, the Bank fully repaid subordinated debt in the amount of EUR 50.0 million "withdrawn" by the International Finance Corporation ("IFC") in 2011. Repayment was made in conditions of high capital adequacy, well above the regulatory requirements. In the coming period, positive effects are expected to lower the total cost of funding sources.

The Strategy of the Treasury's function in the forthcoming period will focus on the careful employment of liquid assets into risk-free and low-risk financial instruments and further lowering the price of the funding sources.

Key Results of New Banking Technologies Business Function, With its Special Parts

Market – Key Tendencies

In 2017, it is noteworthy that there are changes in the market that bring about a higher degree of automation of the process, as well as the emergence of new digital products. New technologies in banking take the lead when considering the most efficient channels for customer acquisition.

Also, following the technology development, legal regulations are adapted to use new digital products and services in a safe, transparent and easy way.

The most important changes arise from Payment Services Directive 2 (PSD2) that came into force within the European Union and has a big impact on our market when it comes to new banking technologies, even though Serbia is not yet a member of the European Union. By introducing the PSD2 regulations, the financial institutions in the European Union are obliged to present their services and data to third parties in a safe manner and in accordance with the rules that the PSD2 prescribes. Although the first impression is that the PSD2 activity of financial institutions makes it available to third parties (especially "fintek" companies and "fintek" "start-ups"), it is a fact that by joining financial institutions and fintek companies, we get innovative services and products that bring new modern services to the clients and allow access to new clients and additional fee income to the financial institutions. Some of the banks in Serbia (mainly banks with majority foreign ownership) have recognized the possibilities that PSD2 brings about and have already begun to implement services that are in line with this regulation. Other important legal regulations that are expected to come into effect and which will have a major impact on digital services and products is the new Personal Data Protection Law (complementary to GDPR regulations in the European Union) and the new Law on the Prevention of Money Laundering and Financing of Terrorism, while the Law on Electronic Signature and Electronic Identification is pending the adoption of bylaws in order to become fully effective.

The market opens generally for all kinds of new digital services and products, banks with majority foreign ownership bring knowledge and technology from their parent banks, which will be an additional challenge and a motive to continue with innovations and implementation of new banking technologies in Komercijalna Banka as well.

6.5. New Banking Technologies and Digital Banking Division

During 2017, the work on achieving goals set by the previous year's strategy and the digitization program continued, ensuring continuity and consistency, and thus confirming the strategy set up when forming a business function. As it was planned, the scope of work with products and services intended for the retail segment and products and services intended for micro-entities was extended, which was successfully implemented.

- February 2017 (mBank) and May 2017 (eBank). New versions of applications for e-banking were released (eBank and mBank) for retail clients, bringing contemporary, new design and new functionalities with numerous technical and logical improvements compared to previous versions, but with new services first of that kind on the domestic market. Mobile application was enhanced by the first-on-the-market digital payment card, as an integral part of mBank application. This “Visa” card, called “KOMePay” offers to the client the possibility to make payments by phone, instead of using physical card. Komercijalna Banka was the first bank to introduce this type of digital card on the market (HCE), with this functionality integrated in the very mBank application. More than 1,300 clients have chosen this type of card until now. As opposed to the competition, the customers can now apply for this card through mBank application, not having to go to the outlet. An as opposed to the competition, we provide „tap&pay“option – payment with no need to log into the application. The development of this card and launching of the same in the primary competitions lasted about a year and a half, while in our Bank, from idea to launching, the entire process ended in eight months, with better ultimate result. Application and mBank offer, in addition to the service such as “KOMeCASH”, also offers the profile and card administration. It was put in production with the options of biometric identification of the client by fingerprint, for the users of mBank application, and for the clients that want this option and have technical possibilities thereof.
- May 2017. Opening of the first digital “*online*” outlet of Komercijalna Banka, called “KOMeCENTER“, which opens the possibility for the clients that want to end all transitions via internet, the same as in the physical outlet but without waiting in line and coming to the bank:
  - Opening sets of accounts;
  - Submitting the applications for payment cards;
  - Overdraft application at client’s selection:
    - Digital signing,
    - Delivery of agreements to home address, or
    - Going to the outlet.

This is not all in development of “KOMeCENTRE”, on the contrary, the work on developing new possibilities for the clients is largely underway, and will soon be finished, such as:

- Savings.
- Permanent orders.
- Payments abroad.
- On-line loans.

Since the beginning of operation of “KOMeCENTRE” until the end of 2017, the clients placed 2.363 applications, with 78% of these approved. The major interest was for the set of accounts, 44% and overdrafts 42%, of all offered products to clients via “KOMeCENTRE”. Interesting thing is that, in terms of signing documentation, most clients still opt for coming to the outlet, no less than 82%, while the delivery of documents to home address for signing was used by 12% of clients, and only 6% chose to electronically sign documents.

- In 2017, as part of promoting of benefits for the clients who would choose to open Premium current account, which goes with Gold “Master” debit card, debit contactless card, the Division contributed by directly helping the colleagues from sales by directly negotiating with several first-class traders, who offered special benefits for our clients paying by this type of card (Gold). All these activities led to very significant result, it being that a number of Gold cards increased by more than 56%, with directly contribute to the strategic direction of attracting clients that have higher purchasing power.
- November 2017. Account packages launched for micro-legal entities, "Kombank Standard current account" and "Kombank Expert current account". These accounts were formed on the basis of a comprehensive analysis of the needs and demand of this type of clients, by combining several different products. These accounts were well accepted by clients and introduced the innovation and refreshment to the market because they offered banking products of highest importance and use to this segment of clients. This project was fully implemented according to the plan, with limited resources, and exceeded the expectations, which was shown through demand and realization. In just over two months since the launch, 1,712 sets of accounts have been opened.
- In the course of 2017, the concept was developed resulting in publishing "Ecosystem for Payments", which is now underway, in the testing phase and should soon be put into practice. This system brings a brand new payment model and promotes ease of payment to customers. This product offers customers the ability to make payments via the Internet not only by payment cards, as before, but by direct transactions from their current account, which belongs to the domain of the so-called instant payments. This system will be named "KOM4PAY", alluding to comfortable payment, which is the essence of this product. In addition to the conventional "on-line" channel, this system will also be available through a mobile application that will be independent of the mBank application. Expected implementation time is the first quarter of 2018.
- During the second half of 2017, the development of the offer of “KOMeCENTRE” continued through new opportunities for clients that will soon be completed, such as the options already mentioned: savings, standing orders, payments abroad and online loans.

6.6. Omnichannel Distribution Division

The omnichannel distribution division actively participated and made outstanding contributions in digital banking projects, in the field of improving the overall supply of the Bank, improving the Bank's competitiveness on the market, improving security, optimizing business operations, and in addition to these results, the following:

- WEB and mobile banking for microbusiness and small and medium enterprises "KOmBANK BIZ" has been implemented. As one of the first banks in the market with the offer of this type in two months, we managed without any marketing campaign to activate about 1,000 users.
- An ANTIFRAUD solution for detecting suspicious and preventing malicious eBank transactions has been implemented. With this solution, the Bank provided additional security for its clients in performing electronic banking and provided additional comfort in the work.
- A module for the exchange of electronic invoices between legal entities was implemented and in this way clients who exchange a large number of invoices made savings in the segment of printing, sending, archiving of paper invoices.
- The total number of e-banking users-legal entities increased by 1,235, or 6% more than in 2016, and the number of active e-Bank users-legal entities increased by 966, or 8% compared to the previous year.
- The total number of e-transactions executed increased by 6%, which is about half a million transactions more than in the previous year.
- The share of eBank in the total payment operations of the Bank increased by 1.28% and amounted to 85.77%.
- Cost of eBank for legal entities decreased by 23%, i.e. 29 million dinars compared to 2016.
- The number of e-banking users-physical persons increased by 27,000, or 28% compared to the previous year.
- The total retail turnover of eBank in the segment of retail clients increased by 29% compared to 2016.

- The number of mBank users-physical persons/retail clients has increased by 128% and now amounts to 62,309.
- Despite the increase in the number of mBank retail users of 128%, the costs have been reduced by 6%, i.e. by one million dinars.
  The total turnover of mobile bank transactions for retail clients has been duplicated.
- Digital office "KOMeCENTRE" has been introduced.
- An online "opening" account for new clients has been introduced.
- Clients were given the possibility of "on-line" application for the set of current accounts, allowed overdrafts and payment cards with deferred payment.
- In the past 8 months, the Digital Branch had 4,573 "on-line" applications.
- The number of missed calls at the Contact Centre of the Bank decreased by 55% and in 2017 there were 1,014 missed calls.
- The average call time in the Contact Centre of the Bank has been reduced to 12 seconds.

6.7. Payment Cards Division

In 2017, the Payment Card Division implemented a number of new products / services for the clients of the Bank, with particular emphasis on the following:

- "KOMePAY" digital card - Card implemented under the mBank of Komercijalna Banka's application, which enables the contactless payment using a mobile phone.
- mPOS terminals - by implementing this type of terminal Komercijalna Banka has singled out as the only bank on the market with this type of terminal.
- Enabling e-commerce payments on the eGov portal - Komercijalna Banka is the first bank in the market that enabled payment by "DINA" cards on the Internet.
- Withdrawal of the EUR (Euro) currency at the ATMs of the Bank - In this way, the Bank has enabled its clients an efficient channel for raising funds in the EUR currency. In addition to the dinar, the Bank's clients can also withdraw the EUR currency through ATMs.

In addition the above-listed results, the following were also achieved, compared to 2016:

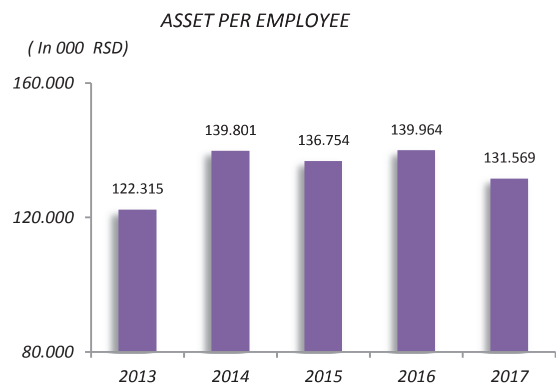
- increase in the number of POS terminals by 25%;
- growth in turnover at POS terminals by 23%;
- growth in turnover on ATMs by 10.94%;
- increase in the number of issued cards by 13%;
- card turnover growth by 11%;
- growth of interest-free instalment sales of 14.6% (realized on a total of 1.863 locations in relation to 2016, when the number of locations was 1.626), while the increase in turnover of interest-free instalment sale was 26.8%.

Conclusion

KB continued the successful work focused on digitization projects, projects of development and improvement of existing services, monitoring of the latest positive world trends in banking, adjustment to the conditions on the domestic market and creation of innovative and modern solutions for the needs of the target groups of clients, with the aim of achieving a better market position of the Bank. All of the above contributes to stable business of the Bank, with planned growth, and providing the sales segment with have high quality products and arguments that will retain the old clients, but will primarily acquire the new ones.

6.8. KB's Human Resources

The Human Resources Management Mission at Komercijalna Banka is to develop and maintain a high level of professionalism and motivation of employees in order to realize the Bank's business plans. With the continuous optimization of the number and structure of employees in recent years, the Bank's efficiency, measured by assets per employee, has also increased significantly. The Bank continuously invests in employee training and development.



During 2017, a development program aimed at developing talents was implemented, called the Kombank Academy, designed to identify and develop the leadership potential of its employees. The first generation of the Academy met its objective, which was in the area of development and improvement of the professional knowledge of the students. The programs were structured multidisciplinary with an approach that provided students with an insight into the whole banking processes and support activities and a deeper understanding of banking operations.

The program was divided into several segments: professional training through 6 modules, testing of knowledge, creation and realization of individual development plans, training Time and stress management, business case management. Participants who took part during the entire period of the Academy program attended professional training Project Management.
The program included the preparation and analysis of professional profiles of participants, as well as the development and implementation of individual development plans. Given that this program is of high importance for the overall operations of the Bank, the Human Resources Sector has started planning the program for the second generation of Kombank Academy participants.

Such an integrative approach to the management and development of skills and skills of employees influences the improvement of motivation, loyalty, interpersonal relationships and team spirit among employees working in different organizational units.

Development activities in 2017 indicate the continuation of a qualitative and proactive approach to the realization of training, based primarily on identifying training needs and adapting training contents, defining and providing internal training, organizing internal and external training, measuring and improving the quality of training and training process.

<table>
<tr><td>Number of employees</td><td colspan="20">2.806</td></tr>
<tr><td>Network</td><td colspan="20">1.707</td></tr>
<tr><td>Divisions</td><td colspan="20">1.099</td></tr>
<tr><td rowspan="2">Gender</td><td colspan="10">Male</td><td colspan="10">Female</td></tr>
<tr><td colspan="10">751</td><td colspan="10">2.055</td></tr>
<tr><td rowspan="2">Work relation status</td><td colspan="7">Full time</td><td colspan="7">Part-time</td><td colspan="6">Standstill</td></tr>
<tr><td colspan="7">2.710</td><td colspan="7">92</td><td colspan="6">4</td></tr>
<tr><td rowspan="2">Educational structure</td><td colspan="5">Faculty</td><td colspan="5">College</td><td colspan="5">High school</td><td colspan="5">UN/SQ/ HS worker*</td></tr>
<tr><td colspan="5">1.245</td><td colspan="5">643</td><td colspan="5">891</td><td colspan="5">27</td></tr>
<tr><td rowspan="2">Age structure</td><td colspan="4">20-30</td><td colspan="4">31-40</td><td colspan="4">41-50</td><td colspan="4">51-60</td><td colspan="4">61+</td></tr>
<tr><td colspan="4">87</td><td colspan="4">1.029</td><td colspan="4">786</td><td colspan="4">826</td><td colspan="4">78</td></tr>
</table>

* Unqualified / semi-qualified/ highly-skilled workers

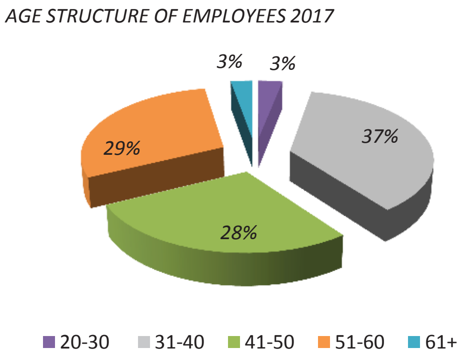
The Bank attaches special attention to the organization of internal and external professional training, external and internal "skills" trainings, which aim to develop the skills of employees that are necessary for their successful performance. Observed by the subject of training, the most frequent are professional trainings aimed at acquiring new and improving existing knowledge. According to the criterion of the importance of the topic and the scope of training in terms of the number of participants, the most important trainings during 2017 were:
a) internal professional: Prevention and Money Laundering and Terrorist Financing, Operational Risks and Self-Assessment Preparation, Annual Evaluation of Employees, Emergency Situation Prevention, Client Complaints and Code of Conduct;
b) External professional: Products and applications of "Generali" insurance, training for the insurance agent, Cash flow management.

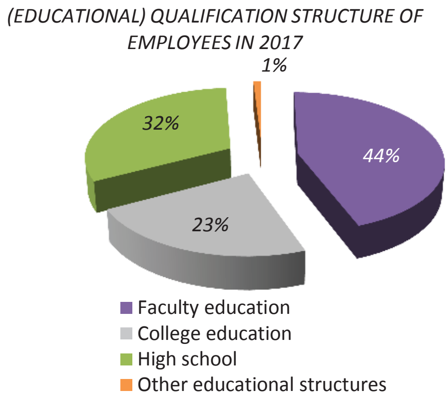
In 2017, the HR department launched an initiative to maintain internal skills trainings - Efficient Leadership, Assertive Communication, Stress Management, Time Management - that were attended by a total of 228 employees, while 294 employees attended external "skills" trainings, and most often on the topic of Leadership Skills, How to Become a Partner with a Client, Sales Skills and Sales Coaching. This year, six internal "on-line" trainings were organized and 5,999 employees were tested, namely: OFAC sanctions, Deposit insurance, establishing business cooperation with individuals, Micro client sets, Financing retail clients, testing for employees in the network from outlets authorized to work with securities.

Observed by the subject of training, the most frequent are professional trainings aimed at acquiring new and improving existing knowledge.

Since 2008, the Bank has been carrying out an annual evaluation of performance of employees based on the set of annual goals, monitoring the achievement of these goals, as well as proved capabilities of the employees in achieving the goals. The annual evaluation of employees' work is also the basis for rewarding, career planning of employees and budget planning and the Employee Training Program.

The principles of remuneration of employees are clearly defined by the Remuneration Policy adopted by the Bank's Board of Directors at the proposal of the Compensation Committee, a body of the Board of Directors. The aim of this policy is not only to adequately reward employees, but also motivate them to achieve better results.





6.9. Balance sheet of the Bank as at 31 December 2017

No.	BS ITEM	31.12.2017.	31.12.2016.	INDICES	% OF SHARE AS OF 31.12.2017.
1	2	3	4	5	6
	ASSETS (in 000 RSD)				
1.	Cash and funds held with Central Bank	49.840.887	55.153.209	90,37	13,50
2.	Pledged financial assets	-	-	-	-
3.	Financial assets at fair value through P&L intended for trading	5.269.709	242.920	2.169,32	1,43
4.	Financial assets initially recognized at fair value through profit and loss	-	-	-	-
5.	Financial assets available for sale	112.019.058	136.123.853	82,29	30,34
6.	Financial assets held until maturity	-	-	-	-
7.	Loans and receivables from banks and other financial institutions	29.543.789	40.601.413	72,77	8,00
8.	Loans and receivables from customers	153.897.367	150.411.409	102,32	41,69
9.	Changes in fair value of items subject to risk protection	-	-	-	-
10.	Receivables from financial derivatives intended for risk protection	-	-	-	-
11.	Investments in subsidiaries and joint ventures	-	-	-	-
12.	Investments in subsidiaries	2.611.859	2.611.859	100,00	0,71
13.	Non-tangible investments	460.263	362.507	126,97	0,12
14.	Property, plant and equipment	5.655.248	5.856.458	96,56	1,53
15.	Investment property	1.988.608	2.217.816	89,67	0,54
16.	Current tax assets	-	-	-	-
17.	Deferred tax assets	857.096	-	-	0,23
18.	Fixed assets intended for sale and assets from discontinued operations	241.148	183.170	131,65	0,07
19.	Other assets	6.798.506	6.252.855	108,73	1,84
	TOTAL ASSETS (from 1 to 19)	**369.183.538**	**400.017.469**	92,29	100,00

No.	BS ITEM	31.12.2017.	31.12.2016.	INDICES	% OF SHARE AS OF 31.12.2017.
1	2	3	4	5	6
	LIABILITIES (in 000 RSD)				
1.	Financial liabilities at fair value through profit & loss intended for trading	7.845	-	-	0,00
2.	Financial liabilities initially recognized at fair value through profit and loss	-	-	-	-
3.	Liabilities based on financial derivatives for risk protection	-	-	-	-
4.	Deposits and other liabilities to banks, other financial organizations and the central bank	4.532.505	7.834.962	57,85	1,23
5.	Deposits and other liabilities to other customers	292.471.640	322.621.360	90,65	79,22
6.	Changes in fair value of items subject to risk protection	-	-		
7.	Issued treasury shares and other borrowed funds	-	-		
8.	Subordinated liabilities	-	6.178.390	-	-
9.	Provisions	1.368.051	1.787.294	76,54	0,37
10.	Liabilities intended for sale and operating funds from discontuned operations	-	-		
11.	Current tax liabilities	-	-		
12.	Deferred tax laibilites	-	23.592	-	-
13.	Other liabilities	7.543.442	6.147.569	122,71	2,04
14.	**TOTAL LIABILITIES (from 1 to 13)**	**305.923.483**	**344.593.167**	88,78	82,87
	CAPITAL				
15.	Share capital	40.034.550	40.034.550	100,00	10,84
16.	Treasury shares	-	-		
17.	Profit	8.137.249	349.698	2.326,94	2,20
18.	Loss	-	8.063.183	-	-
19.	Reserves	15.088.256	23.103.237	65,31	4,09
20.	Ungenerated losses	-	-		
21.	Non-controlling share	-	-		
22.	**TOTAL CAPITAL (from 15 to 21)**	**63.260.055**	**55.424.302**	114,14	17,14
23.	**TOTAL LIABILITIES (14+22)**	**369.183.538**	**400.017.469**	92,29	100,00

6.10. Statement of Proft & Loss of KB for 2017

No.	BALANCE SHEET ITEM	31.12.2017.	31.12.2016.	INDICES
1	2	3	4	5
	INCOME AND EXPENSES FROM ORDINARY OPERATION (000 RSD)			
1.1.	Interest income	14.052.436	16.689.075	84,20
1.2.	Interest expenses	-1.606.239	-3.226.341	49,79
1.	**Net interest income**	**12.446.197**	**13.462.734**	92,45
2.1.	Fees and commission income	6.700.216	6.252.370	107,16
2.2.	Fees and commission expenses	-1.617.990	-1.435.056	112,75
2.	**Net fees and commission income**	**5.082.226**	**4.817.314**	105,50
3.	Net gain on trading assets	103.798	70.478	147,28
4.	Net gain / loss (-) based on risk protection	-	-	-
5.	Net gain / loss (-) from financial assets initially recognized at fair value through profit and loss	-	-	-
6.	Net profit / loss (-) from available-for-sale financial assets	44.323	69.062	64,18
7.	Net expenses from exchange rate differences and effects of contractual currency clause	-56.358	-9.282	607,18
8.	Net gain / loss (-) based on investments in subsidiaries and joint ventures	306	5.143	5,95
9.	Other operating income	937.777	573.235	163,59
10.	Net income / expense (-) based on impairment of financial assets and credit risk-bearing off-balance sheet items	17.883	-14.907.539	-
11.	**TOTAL NET OPERATING INCOME**	**18.576.152**	**4.081.145**	455,17
12.	Costs of salaries, compensation of salaries and other personal expenses	-4.520.197	-4.498.212	100,49
13.	Depreciation costs	-563.582	-666.025	84,62
14.	Other expenses	-6.305.123	-7.294.544	86,44
15.	**PROFIT / LOSS (-) BEFORE TAX (from 1 to 14)**	**7.187.250**	**-8.377.636**	-
16.	Income tax		-	-
17.	Profit from deferred taxes	1.335.828	314.453	424,81
18.	Loss from deferred tax	-405.710		-
19.	**PROFIT / LOSS (-) AFTER TAX (from 15 to 18)**	**8.117.368**	**-8.063.183**	-
20.	Net profit from discontinued operations		-	-
21.	Net loss from discontinued operations		-	-
22.	**RESULT OF PERIOD PROFIT / LOSS (-) (19 to 21)**	**8.117.368**	**-8.063.183**	-

7. INVESTMENT IN ENVIRONMENT PROTECTION

The Bank observes the highest international standards and values when creating financial products and services and develops and implements activities to protect the environment and to protect human and labour rights. In its Policy and Procedure of Environmental and Social Risk Management, the Bank set out standards for identifying, monitoring and managing environmental and social risks in the loan approval and monitoring process. The aim of the environmental risk management system is to incorporate this system in the lending activity and loan monitoring process, thus increasing the opportunities for environmentally acceptable and sustainable economic development and minimising any adverse environmental and social impact.

The Bank has also defined a procedure for handling and replying to complaints arising from direct or indirect environmental and social impact of the Bank's operations.

Under the credit lines it had agreed to finance investment in increased energy efficiency and renewable energy development, the Bank has been approving loans which contribute to lower energy consumption and lower CO_2 emissions. The Bank did not draw any new credit lines for energy efficiency projects from international financial institutions in 2017.

The Bank demands of its customers to run their business in compliance with the applicable environment protection, health care and safety regulations where applicable, EU standards and other standards of good international practice, which are in line with the requirements of the EBRD and IFC standards. To ensure consistent application of standards, the Bank uses a list of industries, projects and activities excluded from financing by the Bank and activities which may be finance by the Bank only after obtaining prior approval in writing from the EBRD. With the approval of International Financial Institutions, the Bank operates in compliance with the defined lending limits in relation to the following activities: alcohol production and trade, tobacco and manufactured tobacco production and trade and gambling. Production of and trade in weapons and ammunition are excluded from financing by the Bank.

The approaches to environmental risk and social risk management involves two levels of management: the level of individual loans and the level of the entire portfolio. In respect of every business activity of its customers, the Bank assigns a risk level or category based on its environmental and social impact.

In the loan approval process, in compliance with the requirements of international financial institutions and the legislation relevant for environment protection, the Bank categorises its customers' applications based on environmental and social impact using the Environmental and Social Risk Categorisation List.

The Bank monitors the structure of its portfolio and the share of risk categories in terms of environmental and social impact. Monthly reports are submitted to the Credit Committee, the Audit Committee and ALCO, while the Board of Directors receives quarterly reports on exposure to environmental and social impact risk. The Bank also continually monitors any extraordinary events at its customers that may have adverse environmental, health or safety impact or adverse impact on the community in general and regularly reports its findings to the Bank's managing bodies and shareholders.

8. SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

Between 31 December 2017 and the end of February 2018, the General Meeting of Shareholders held one session.

A regular General Meeting of Shareholders was held on 29 January 2018. It passed the following decisions:

- Decision on release from duty and appointment of a member of the Board of Directors of Komercijalna banka AD;
- Decision on release from duty and appointment of the Chairperson of the Board of Directors of Komercijalna banka AD;
- Decision on adoption of the Bank's Strategy and Business Plan for 2018-2020.

A description of the events after the financial year is provided in item "Events after the Balance Sheet Date" in the Notes to the 2017 Financial Statements.

9. PLAN FOR BANK'S FUTURE DEVELOPMENT

The main pillars of the Bank's development strategy for the next three years are as follows:

- Growth of lending to customers (as a key aspect of future profitability),
- Control of business risks in the future to maintain a low net impairment charge (because of the significant credit loss posted in 2015 and 2016),
- Improvement/change of the customer structure in terms of demographics and standard (taking into account the development of innovative products), so that, in addition to large corporates, the Bank intends to further develop its business with local self-governments, SMEs and customers from neighbouring countries,
- Increasing the share of fee and commission income relative to interest income (the Bank will increasingly focus on fee and commission income because of the downward trend of interest rates and because of digitalisation and other development initiatives it is implementing),
- Capping operating expenses and further increase in operating efficiency to ensure a sustained decline in the cost-to-income ratio (CIR) throughout the period covered by the plan,
- Maintaining an adequate capital position, with the distribution of accumulated dividends from earlier years and dividend from planned profit in the next three-year period.

Retail

In the coming period, the Bank intends to:

- Increase the number of credit customers, primarily through better utilisation of the existing customer base by implementing and improving software tools for retail banking,
- Further expand its customer base with regular salary or pension inflow,
- Shift the customer structure towards a greater focus on wealthier customers with better creditworthiness and attract the younger population as the basis for future lending growth,
- Focus on cross selling of bundled products or services to increase revenue per customer,
- Implement new proactive sales campaigns, including lending based on preliminary approval,
- Increase cash and mortgage lending, as these credit products are in highest demand, and increase current account overdraft loans as its most profitable product,
- Modify its products for micro enterprises and sole traders to keep abreast of market developments in order to maintain the required level of competitiveness,
- Maintain its leading position in the farmer loan market. Lending activity will focus on loans for equipment purchase and agricultural land purchase, as well as on keeping up with IPARD lending activities,
- Expand its product range by introducing products to finance non-current assets of farms, designed primarily to support the development of secondary agricultural production and improve the standard of living on farms,
- Introduce scoring for farms and begin preparations for introducing the same in the micro segment,
- Maintain its current position in the retail savings segment,
- Continue the ongoing efforts to digitalise its operations and implement new banking technologies.

One of the Bank's main strategic objectives for the coming period is to improve customer structure by attracting customers with higher purchasing power, which we intend to achieve by offering new innovative products and services such as Premium current account sets.
Another important objective in the Retail segment is to rejuvenate the customer portfolio, which is why we have developed Start current account sets.

In recent years, the Bank saw a significant increase in retail FX deposits, making it a leader in forex savings. The planned growth of retail deposits in the following period is somewhat lower than in recent years, due among other things to the offering of new government securities intended for domestic natural persons (savings bonds of the Republic of Serbia).
The Bank plans to increase its interest income from retail operations in 2018. The anticipated decline in lending interest will be offset by

increased lending, in particular through cash loans.
Fee and commission income is expected to increase in 2018 due to the stable growth of card operations and retail current account maintenance fees.
The expected GDP growth of approximately 3% will create a more favourable business climate for micro enterprises and sole traders. The Bank will make efforts to have a suitable offering of credit products for these clients at all times. An ongoing task is to make the process of making credit decisions faster, which will be achieved through new software applications, implementation of a new scoring model and the use of automatic and preliminary approval.

Corporate
In the coming period, the Bank intends to:

- Improve its utilisation of the existing corporate customer base,
- Increase efficiency of the corporate lending procedure,
- Preserve the quality of its loan portfolio,
- Expand its product range by launching new products,
- Increase its off-balance sheet portfolio (letters of credit and guarantees),
- Maintain its profitability at the projected level.

The Bank expects the business environment in 2018 to remain unchanged from 2017. The anticipated GDP growth will be due mainly to the operations of customers in export-oriented industries and due to the inflow of foreign direct investment.

The banking sector is expected to remain highly liquid during the planned period, as a result of the lack of demand by creditworthy customers on the one hand and continuing wariness of borrowing on the other. Instead of borrowing from banks, creditworthy companies will try to cover some of their asset shortfall from alternative financial arrangements (direct financing by International Financial Institutions (IFI), EU pre-accession programmes, various state programmes, the Development Fund of the Republic of Serbia etc.).

The period behinds us was characterised by a significant decline in lending interest rates. The Bank expects lending interest rates to stabilise and sees room for further interest rate cuts only in lending to first-class customers.

Public enterprises and local self-governments will remain crucial customers in the coming period. Lending to these groups of customers is characterised by price competition among banks and constant striving towards a faster lending process (through simplified credit analysis procedures and methodologies).

The Bank anticipates significant lending growth in the SME segment. This will be funded both from the Bank's own funds and from credit lines and funds provided by international financial institutions (EIB - APEX III/B programme, EIF COSME programme etc.).

The focus in the forthcoming period will be on the regions of Belgrade and Vojvodina, due to the high concentration of corporate customers in these regions.

Lending growth in the coming period is expected in food industry, agriculture with ancillary activities, the services sector (trade, transport), energy and construction, driven by the execution of large infrastructure projects.

The Bank also plans to be more involved in syndicated loans (joint lending with other banks) for large private- and public-sector projects, as well as project loans in the real estate segment.

The Bank will remain open to providing loans pursuant to large loan applications by public- and private-sector customers through cross-border finance in the coming period. As before, the Bank will engage in these activities in coordination with its subsidiaries in Montenegro and Bosnia and Herzegovina.

The plan for off-balance sheet portfolio growth (guarantees, letters of credit etc.) will depend on the execution of major infrastructure and construction projects and the choice of contractors for their execution. The Bank will aim to introduce additional services in the coming period based on trade finance instruments (factoring of loro letters of credit, pledge on claims arising from loro letters of credit etc.).

Securities trading
In an effort to complete its product offering, the Bank has been improving its securities trading segment for some time. In this context, the Bank intends to:

- Implement improvements to the Kombank Trader web application for online securities trading in foreign stock

exchanges and to enable customers to trade using Android-based applications on their mobile phones and portable computers,
- Promote issuing of orders by phone – an option that went into production in December 2017,
- Enable the taking of collateral made up of investment units of the KomBank Money Fund for trading in domestic and foreign stock exchanges using the Kombank Trader application,
- Implement automation of back-office cash balancing of transactions with foreign stock exchanges,
- Improve its dealer operations involving government debt securities by more frequent trading through the trading ledger and expansion of its customer base for dealer operations to include customers in the banking, insurance and investment fund segments,
- Further expand the range of financial products it offers (derivatives, currency pairs).

Profitability
- Stable interest income,
- Fee and commission income growth,
- Opex control and
- Low expense for indirect loan write-off.

In the past period, Serbia's banking sector saw a significant decline in both lending and borrowing interest rate. As a result, interest rate margin was significantly squeezed interest margin. Neither lending nor borrowing interest rates are expected to drop significantly in the future.
Net interest income at the end of 2018 is expected be slightly below the 2017 level. To maintain and increase profitability in the coming period, the Bank will make efforts to increase fee and commission income, primarily from payment system transactions, foreign exchange purchase and sale and issuing of L/Cs and guarantees.
Similarly as in earlier years, focus in the period covered by the plan will be on the amount of operating expenses, which will result in a further reduction of the cost-to-income ratio.
After the significant impairment costs in 2015 and 2016, the Bank does not expect any major impairment costs in the next three years.

In view of the foregoing, the Bank plans profitable operations and adequate return on assets and equity in the next three-year period.

Asset management *("Treasury")*
The Bank's strategy with regard to asset management in the coming period includes:
- Active management of the total securities portfolio,
- Optimising credit line funds and
- Contributing to profitable operations of the Bank.

As a result of lack of quality demand in the past period, a significant share of the bank's assets is invested in highly liquid and risk-free securities (treasury bonds and bills of the Republic of Serbia). The Bank does not plan any further significant increase in its investment in securities; instead, it intends to reinvest the funds freed from securities in instruments with longer maturity periods. This will mitigate the adverse effect of declining interest rates, especially on securities with shorter maturity periods.

Due to the amount of retail and corporate deposits and the lack of quality demand for loans, the Bank had lower demand for foreign credit lines. To optimise its liabilities and cut interest expenses, the Bank prepaid some of the credit lines. Optimisation of credit lines will continue in the coming period: the Bank will repay credit lines with high interest upon maturity and will borrow new credit lines only if there is interest among creditworthy customers for loans under those credit lines.

Based on the foregoing, the Bank's objectives with regard to asset management include having access to adequate liquidity reserves at all times in the form of highly-liquid assets that are readily convertible to cash. Any surplus liquid assets will be invested in low-risk securities or lent to other first-class financial institutions to generate appropriate income. Innovative product development and foreign exchange purchase and sale in the money and capital markets will also generate an appropriate level of net fee income.

Deposit potential
The main sources of the Bank's deposit potential will remain:
- Retail forex savings, as the dominant source of finance in the forthcoming period,
- Deposits by corporate customers and financial institutions and
- Funds obtained in the form of credit lines from international financial institutions.

For many years, the Bank has stood out in the banking sector for the amount of its retail forex savings. The Bank's strategic commitment is to maintain its leading position in this segment and to remain among the leading banks in terms of retail forex savings, coupled with efforts to optimise the cost and structure of this source of finance. The Bank intends to continue with its retail forex savings policy based on a large number of deposits with small individual deposits.

Corporate deposits have remained stable over a longer period and it is expected that new loan customers would transfer their deposits to the Bank, which would result in an increase in corporate deposits.

Due to its recognised and stable market position, the Bank is able to apply for finance with international financial institutions in the form of designated credit lines.

The Bank will use this source of finance to the extent of its ability to generate loan products acceptable to the market from them.

10. RESEARCH AND DEVELOPMENT

The financial market was characterised by intensive development of digitalisation during the past year. Keeping abreast of these events and market changes, the Bank prioritised digital banking, both in terms of developing new products and services and in terms of improving and modifying the existing ones, to maintain its leading market position, which is reaffirmed by surveys. Komercijalna banka has made significant improvements in the e-banking and m-banking segments.

The market positioning of the Bank as a brand and of its products and services were again checked in 2017 through the Banking Omnibus, carried out by the opinion polling agency IPSOS, which specialises in surveys of this type. According to the surveys, the Bank has held a leading position in public perception for quite some time, as measured by the criteria of brand recognition, product and service quality and customer satisfaction. All survey results are posted on the Bank's internal Portal and are also presented to focus groups, in order to further strengthen the Komercijalna banka brand.
According to the most recent Banking Omnibus (November 2017), the respondents rated Komercinalna banka Beograd second among the 15 leading banks in Serbia in terms of brand recognition.

Top banks in Serbia:

11. REDEMPTION OF OWN SHARES AND EQUITY HOLDINGS

The Bank has no redeemed own shares as at 31 December 2017 and had not held any redeemed own shares in 2017.

In addition, the Bank does not intend to redeem own shares in the coming period.

12. FINANCIAL INSTRUMENTS RELEVANT FOR ASSESSING FINANCIAL STANDING

The following balance sheet positions are key for a proper assessment of the Bank's financial standing at the end of the financial year 2017:

- On the asset side:
  - Loans to and receivables from customers,
  - Loans to and receivables from banks and other financial organisations,
  - Available-for-sale financial assets
  - Cash and assets with the Central Bank.
- On the liability side:
  - Deposits and other liabilities to other customers,
  - Deposits and other liabilities to banks, other financial organisations and the Central Bank,
  - Equity.

Loans to and receivables from customers, banks and other financial organisations at 2017 year-end amounted to RSD 183,441.2 million and accounted for 49.7% of total balance sheet assets. At 2016 year-end, loans and receivables amounted to RSD 191,012.8 million and accounted for 47.8% of total assets. In the past year, the Bank focused in particular on its risk management policy, since loans and advances accounted for nearly 50% of total assets, with emphasis on credit risk. During the past year, credit and receivables were reduced by RSD 7,571.7 million, or by 4.0%. In 2017, the Bank again managed a large credit portfolio, which was secured by an appropriate amount of impairment allowance and reserve.

Available-for-sale financial assets amounted to RSD 112,019.1 million at 2017 year-end, accounting for 30.3% of total assets. Relative to 2016 (RSD 136,123.9 million, 34.0% of total assets), they were RSD 24,104.8 million down. Available-for-sale financial assets comprise mainly treasury securities of the Republic of Serbia – RSD and EUR-denominated bonds.

At 2017 year-end, cash and assets with the central bank amounted to RSD 49,840.9 million and were RSD 5,312.3 million or 9.6% down compared with the beginning of the year. This position comprises mainly transfer account funds (30.2%) and funds held with the National Bank of Serbia as statutory reserve (55.9%). This position declined as a result of higher investment of the Bank's free assets in securities.
Taking into account the asset structure, it appears that assets sensitive to credit risk was maintained at an optimum level, with a sensible risk-taking policy. Through a much more restrictive credit risk assessment in the past two years, the Bank's management safeguarded its loan portfolio and ensured that financial statements realistically reflect the actual situation. The Bank's operations in 2017 were free from any significant burden arising from impairment expense for financial assets ad credit risk-weighted off-balance sheet assets.

Deposits and other liabilities to banks and other customers (included credit line funds) at 2017 year-end amounted to RSD 297,004,1 million, accounting for 80.4% of total balance sheet liabilities. Relative to the beginning of the year, deposits and other liabilities to other customers were RSD 33,452.2 million lower. The Bank's deposit potential comprises mainly forex deposits by natural persons. As at 31 December 2017, retail forex savings amounted to EUR 1,623.6 million and included a large number of small deposits. Notwithstanding the decline in borrowing 9interest relative to previous years, at 2017 year-end, retail forex deposits were EUR 33.1 million higher compared with 2016 year-end.

Deposits and other liabilities to banks, other financial organisations and the central bank at 2017 year-end amounted to RSD 4,532.5 million, accounting for 1.2% of the Bank's total liabilities, and were reduced by RSD 3,302.5 million.
As at 31 December 2017, the Bank had no subordinated liabilities, as it had repaid the IFC (International Financial Corporation) loan which it had obtained at the end of 2011 to strengthen its capital.

The Bank's total equity at 2017 year-end was RSD 63,260.1 million, which was 17.1% of its total liabilities. During the reporting financial year, total equity was increased by RSD 7,835.8 million, or 14.1%. This equity increase was the result of the profit generated in 2017. The Bank's reserves were reduced by RSD 8,015.0 million in 2017 due to the coverage of the 2016 loss.

The Bank had a capital adequacy ratio of 27.89% at 2017 year-end, which was above the statutory minimum (8%+required combined capital buffer).

In conclusion, in 2017 the Bank once again ensured the necessary diversification of its sources of finance from the viewpoint of stable and profitable operations.

13. RISK MANAGEMENT

13.1. Goals and policies of financial risks management

Risk management is a key element of business management, since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, and risk reporting, or the establishment of risk limits, as well as reporting in accordance with strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: strategies, policies and risk management procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks that the Bank is exposed to or exposed to in its operations, adequate internal control system, an appropriate information system and an adequate process of internal capital adequacy assessment. Also, in the risk management system, the Bank Recovery Plan is integrated as a mechanism for early identification of the situation of a severe financial disturbance in which the Bank can take measures or apply the defined recovery options in order to prevent entry into the early intervention phase in which the active participation has a regulator or improvement already worsened financial situation. Risk Management Strategy and Capital Management Strategy, the Bank set the following goals within the framework of the risk management system: minimizing negative effects on the financial result and capital, respecting the defined framework of acceptable level of risk, maintaining the required level of capital adequacy, developing the Bank's activities in accordance with business opportunities and market development in order to achieve competitive advantages, risk diversification to which the Bank is exposed, maintenance of NPL participation in total loans until accepted NPL level for the Bank, maintain a ratio of liquid assets to cover above the statutory regulations and internal limits. The Bank permanently monitors all announcements and changes in the regulatory framework, analyzes the impact on the level of risk and takes measures to timely align its business with new regulations, such as the implementation of the International Financial Reporting Standard 9 (IFRS 9). Through a clearly defined process of introducing new and significantly altered products, services and processes related to processes and systems, the Bank analyzes their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially adverse effects on the financial result Banks. A more detailed overview of the Bank's risk management objectives and policies is presented in point 4. Note to the financial statements.

Credit risk exposure protecion policy

In order to protect against exposure to credit risk, the Bank applies credit risk mitigation techniques by providing and providing collateral security instruments (collateral) as secondary sources of collateral. The Bank strives to deal with clients with good creditworthiness, assessing it at the moment of submitting the request and regular monitoring of debtors, placements and collaterals, in order to timely undertake appropriate activities in the collection process. Types of collateralisation depend on the credit risk assessment of the debtor, and are determined in each specific case individually, and their acquisition is done after the contract is concluded and before the realization of the placement.

By internal regulations, the Bank regulated the valuation of credit protection instruments and the management of these instruments.

When assessing the value of collateral, the Bank engages the authorized appraisers in order to minimize the potential risk of unrealistic valuation, and the immovable property, goods, equipment and other movable items that are the subject of inventory must be insured with an insurance company acceptable to the Bank, with insurance policies vinculated for the benefit of the Bank.

In order to protect against the change in the market value of collateral, the estimated value is adjusted for the defined percentage of impairment, depending on the type of collateral and the location of the real estate, which are regularly reviewed and revised.

The Bank devotes special attention to the monitoring of collaterals and undertakes activities to provide new valuation, but also to the provision of additional collaterals, primarily to clients with identified problems in the business, as well as clients whose coverage of exposure to collateral is reduced due to the collapse of the value of collateral.

For the purpose of adequate risk management, the Bank conducts credit risk analysis activities for the approval of placements and the establishment of a system for monitoring, preventing and managing risky placements, including the adequate identification of potentially risky clients (Watch List), alleviating credit risk in clients of the said status, as well as through taking measures and actions in order to protect the Bank's interests and prevent negative effects on the financial result and capital of the Bank.

During 2017, the Bank continued to improve the risk management system. The Bank revised the Risk Management and Risk Management Policy, supplemented the policies and procedures with the aim of aligning with the changes in domestic and international regulations. In line with the amended regulatory requirements, credit risk management has been improved. Also, the Bank made significant changes in the organizational structure (grouping the branches of the Bank into Business centers, organizational changes within the corporate and retail functions, changes in decision making methods - abolishment of credit committees by branches and the Credit Committee for Individuals, Microbusiness and Agriculture, Billing, Liquidity Committee and Investment Committee). At the level of the Bank one is identified, the Central Credit Committee, and within the Function of Risk Management, a Person with a decision-making authority has been appointed.

In 2017, the Bank focused on improving the quality of the loan portfolio by reducing the emergence of new bad loans and tackling the problems of clients that have already been identified as problematic and also implementing activities to reduce non-performing loans (improved collection, sale / transfer, and write-off by transferring entirely impaired receivables into off-balance sheet records). In accordance with the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets of the bank (application dated September 30, 2017), the Bank transferred 100% of impaired loans from the balance sheet to off-balance sheet records and collected in a significant amount the risk loans, resulting in a decrease indicators of NPL.

Real growth in value adjustments (profit and loss) in 2017 was well below the planned value for 2017, as the collection of risky placements was twice as high as planned. Also, the small increase in value adjustments also affected the conservative placement policy in 2017. A significant reduction in value adjustments in the balance sheet is a consequence of the transfer of 100% of impaired placements from balance sheet to off-balance sheet records.

As of 01.01,2018, the Bank applies IFRS 9 standard and, in accordance with the above standard, has implemented a new Methodology for assessing the impairment of balance sheet assets and probable loss on off-balance sheet items. From the concept of "incurred losses" switches to the concept of "expected losses", the portfolio is differentiated into three levels (level 1-PL clients without identified credit risk, level 2-PL clients with identified credit risk deterioration, level 3-NPL clients). Exposure to the state of Serbia (the largest share of securities is also) has also been impaired. The Bank has aligned all relevant internal regulations in accordance with the application of IFRS 9 standards.

13.2. Exposure to Risks (Price, Credit, Liquidity and Cash Flow) with a Risk Management Strategy and Assessment of its Effectiveness

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

1. Credit risk and related risks;
2. Liquidity risk;
3. Market risk;
4. Interest rate risk on the bank ledger;
5. Operational risk;
6. Investment risk;
7. Exposure risk, and
8. Country risk, as well as any other risks that may arise in the Group's operations.

Credit risk is the risk of negative effects on the financial result and capital of the Bank caused by a debtor's failure to settle its liabilities towards the Bank. 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 Bank is defined by the Risk Management Strategy and depends on the structure of the Bank'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 Bank manages credit risk at customer level, at related group level and at the level of the entire portfolio. The Bank grants 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. 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 of the National Bank of Serbia, which require the classification of each loan according to the statutory criteria and calculation of the required level of loan loss reserve. Through monitoring and control of its portfolio as a whole and by specific segments, the Bank makes comparisons with earlier periods, identifies trends and determines the underlying causes for changes in credit risk levels. The Bank 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 Bank's members to assess potential loss as a result of the risks to which they are exposed and to undertake remedial action. On the other hand, the Bank avoids high-risk investments, such as high-profit and high-risk projects, investment funds with a high-risk portfolio etc.

Liquidity risk is the risk of negative effects on the Bank'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 Bank's liabilities as they fall due meeting when liquidity reserves and the inability to cover unexpected outflows and other liabilities. In its operations, the Bank adheres to the core principles of liquidity by generating a sufficient level of liquid assets to cover their liabilities in the short term, i.e. it adheres 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 Bank to convert certain parts of its assets into liquid assets on short notice. The Bank 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 Bank 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. In accordance with the Decision on Liquidity Risk Management by Banks, in effect since 30 June 2017, the Bank has brought its operations in compliance with the regulatory provisions pertaining to the liquidity coverage ratio (LCR). In 2017, the Bank complied with the regulatory and internal limits. The Bank actively undertakes preventive activities to minimise their exposure to liquidity risk.

Market risk risk is the risk of negative effects on the financial performance and capital of the Bank 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 Bank 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 Bank 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 2017, the Bank complied with the regulatory foreign exchange risk indicator, which is set at 20% of regulatory capital.

Interest rate risk is the risk of negative effects on the financial performance and capital of the Bank caused by adverse changes in interest rates, to which the Bank is exposed on the basis of items recorded in the bank ledger. The Bank comprehensively and timely identifies the causes of any current exposure to interest rate risk and assesses 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.

Operational risk is the risk of potential negative effects on the Bank'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 Bank or due to unforeseeable external events. Operational risk also includes legal risk, which is the risk of potential negative effects on the Bank's financial performance and capital due to lawsuits or out-of-court proceedings. The Bank 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 Bank's operating processes. To minimise legal risk and its effects on financial performance, the Bank continues improving its business practice as it pertains to timely provisioning against lawsuits against the Bank, based on an assessment of anticipated future loss on this basis.

The Bank'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 Bank's Bodies and Committees are notified accordingly. This ensures that investments by the Bank in any entity outside of the financial sector do not 10% of the Bank's capital and that investments by the Bank in any entity outside of the financial sector and in fixed assets and investment properties of the Bank do not exceed 60% of the Bank's capital.

Large exposure of the Bank to a single person or a Bank of related parties, including the Bank's related parties, is defined as any exposure the value of which is at least 10% of the Bank's equity. In 2017, the Bank complied with the regulatory and internal exposure limits.

Country risk is the risk associated with the country of origin of a person to whom the Bank is exposed, i.e. The risk of potential negative effects on the Bank's financial performance and capital due to the Bank'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 Bank's exposure to country risk is at an acceptable level.

A detailed breakdown and explanation of the risks to which the Bank is exposed in its operations is provided in section 4 of the Notes to Financial Statements.

14. SOCIALLY RESPONSABLE OPERATIONS

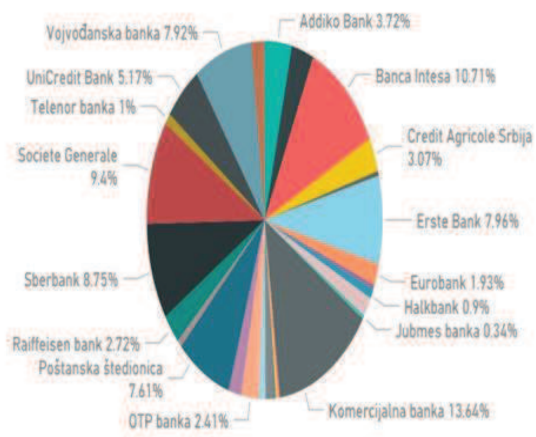
Corporate social responsibility (CSR) activities, carefully selected and supported by the Bank through active engagement with its partners, contributed greatly to maintaining and increasing the value of its corporate image. In 2017, the Bank continued its cooperation with the B92 Fund on its project “Together for Babies”, which provides equipment to maternity clinics in Serbia. Thanks to this charity project, in 2017 funds were collected to equip the maternity clinics in Jagodina and Priboj, while the Medical Centre in Vrnjačka Banja received an ultrasound device, purchased in cooperation with Women’s Association “Milica”. Apart from its use in the medical examination of women, the device can also be used for hip examination in children.
We are the proud sponsors of the Athletics Federation of Serbia, as well as of Ivana Španović, the “Galeb” Taekwondo Team, Milica Mandić and Tijana Bogdanović. We were also present at the International Knights Festival “Despot Stefan Lazarević – Manasija 2017” and the Comedy Festival in Jagodina.
KOMBANK ART HALL, our gallery in Belgrade city centre, remained in the focus of the media and the public in 2017 through 14 conceptually different exhibitions, which were organised in collaboration with the Faculty of Applied Arts.

PR support is indispensable to modern market operations. The Bank had sound, clear and targeted communication with its stakeholders to ensure mutual understanding and build a favourable opinion of the company, thus maintaining the image and reputation it has earned.

Bank’s marketing activities

Under the 2017 Marketing Plan, we continued promoting our existing and new products and services, with constant brand reminders and rejuvenation. In 2017, we implemented a number of campaigns relating to the Bank’s existing products and services, including cash and refinancing loans, loans to pensioners, agriculture loans, current accounts, credit cards etc. We also promoted a special offering of small business and entrepreneurship loans. We promoted the agriculture loans at the Agricultural Fair in Novi Sad and at a number of relevant events across Serbia.
Appropriate promotional activities also accompanied the launching of new products and services or improvement of existing ones, including m-banking and e-banking, KOMePAY virtual card, Kombank Trader application, Mikrokom loan and the KOMeCENTAR digital outlet.
The campaigns we implemented were integrated, i.e. they coordinated numerous communication channels through which we sent a clear and attractive message about the Bank and its product. In addition to the traditional communication channels, we also continued our comprehensive communication on the social networks, including Facebook, Twiter, Youtube, Google+, Instagram and Linkedin. This ensured maximum effectiveness of the promotions, since we utilised the advantages of both traditional and modern media.
All marketing activities are covered on our website, www.kombank.com, as well as on the Bank’s social network accounts.

Shares of media reporting on commercial banks (November 2017)



15. *EXECUTION OF BANK'S 2017 BUSINESS PLAN*

15.1. Execution of the 2017 Balance Sheet

No.	ASSET ITEM	ACHIEVED IN 2017	PLAN FOR 2017	INDICES
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash, cash equivalent and deposits with CB	49,841	60,956	81,8
2.	Securities *	117,289	106,108	110,5
3.	**Loans and receivables from banks and other financial organisations**	**29,544**	**25,193**	117,3
3.1.	Loans	8,539	1,883	453,6
3.2.	Other loans and receivables	21,005	23,310	90,1
4.	**Loans and receivables from customers**	**153,897**	**167,842**	91,7
4.1.	Corporate (loans)	71,726	82,964	86,5
4.2.	Retail (loans)	81,712	84,112	97,1
4.3.	Other loans and receivables (corporate+retail)	459	766	60,0
5.	Investments in subsidiaries and affiliates	2,612	2,612	100,0
6.	Fixed assets and investment property	7,644	8,026	95,2
7.	Other assets	8,357	6,093	137,2
8.	**TOTAL ASSETS**	**369,184**	**376,830**	98,0

**Note: The Item "Securities" includes Financial assets at fair value through P&L intended for trading, Financial assets initially recognized at fair value through P&L, Available-for-sale financial assets and Financial assets held to maturity.*

- The balance of cash and deposits with the Central Bank was lower than planned due to increased investment of free assets, primarily in securities.
- Securities were RSD 11,180.9 million higher than planned, as a result of increased investment in government securities of the Republic of Serbia.
- Loans to and receivables from banks and other financial organisations were higher than planned primarily due to the higher level of investment in repo transactions and the higher amount of lending to banks compared with the planned figures.
- Corporate loans underperformed compared with the planned level (-13.5%) due to lower-than-planned lending to SMEs and the prepayment of some loans.
- Retail loans were slightly lower than planned (-2.9%).
- The lack of loan portfolio growth was offset by higher-than-planned investment in securities (10.5%).
- Fixed assets and investment properties reached the planned figures.
- Other assets exceeded the planned figures (37.2 %), primarily as a result of posting of deferred tax assets (by utilising a tax benefit available under the Law on Corporate Income Tax), which had not been planned.

No.	LIABILITIES ITEM	ACHIEVED IN 2017	PLAN FOR 2017	INDICES
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	**Deposits and liabilities to banks, financial org. and CB**	**13,493**	**16,795**	80,3
1.1.	Deposits	6,100	7,133	85,5
1.2.	Credit lines	7,392	9,632	76,7
1.3.	Other liabilities	1	30	2,1
2.	**Deposits and other liabilities to customers**	**283,511**	**295,265**	96,0
2.1.	Corporate	52,611	59,418	88,5
2.1.1.	Deposits	52,548	59,268	88,7
2.1.2.	Other liabilities	63	150	41,7
2.2.	Retail	230,900	235,847	97,9
2.2.1.	Deposits	230,034	234,460	98,1
2.2.2.	Other liabilities	866	1,387	62,5
3.	Subordinated liabilities	0	0	-
4.	Provisions	1,368	1,477	92,6
5.	Other liabilities	7,551	4,168	181,2
6.	**TOTAL LIABILITIES**	**305,923**	**317,705**	96,3
7.	Share capital and issue premium	40,035	40,035	100,0
8.	Reserves from profit and non-allocated profit	23,226	19,090	121,7
9.	**TOTAL CAPITAL**	**63,260**	**59,125**	107,0
10.	**TOTAL LIABILITIES**	**369,184**	**376,830**	98,0

- Deposits with and liabilities to banks and financial organisations were lower than planned due to lower deposits by financial organisations and lower credit lines as a result of prepayments in the previous year.
- Corporate deposits were lower than planned.
- Retail deposits were slightly higher than planned, which was in part due to the appreciation of the dinar against the euro in the past year.
- Total capital was higher than planned as a result of the higher-than-planned profit and the higher amount of reserves.

15.2. Execution of the 2017 Income Statement

NO.	ITEM	ACHIVED IN 2017	PLAN FOR 2017	INDICES
1	2	3	4	5
	(in RSD million)			
1.1.	Interest income	14,052	14,911	94,2
1.2.	Interest expenses	-1,606	-2,202	72,9
1.	**Net interest income (1.1.-1.2)**	**12,446**	**12,709**	97,9
2.1.	Fees and commission income	6,700	6,974	96,1
2.2.	Fees and commission expenses	-1,618	-1,305	124,0
2.	**Net fees and commission income (2.1. -2.2.)**	**5,082**	**5,669**	89,6
3.	Net rate of ex.differencies and change in value (currency clause)	-56	0	-
4.	Net expenses of indirect write-offs of loans and provisions	18	-3,300	-
5.	Other operating income	1,094	737	148,5
6.	Operating and other expenses	-11,397	-11,285	101,0
7.	**PROFIT FROM REGULAR OPERATION BEFORE TAX**	**7,187**	**4,530**	158,6

- Net interest income achieved in 2017 was 2.1% lower than planned. Interest income from corporate and retail business was lower than planned due to lower lending and declining lending interest rates. Interest income generated by the Treasury function was also lower than planned. As a result, total interest income was RSD 858.6 million lower than planned. Total interest expenses were RSD 596.1 million lower than planned, which can in part be attributed to lower borrowing interest rates.
- Net fee and commission income achieved in the past year was 10.4% lower than planned. Fee income from retail banking was higher than planned. At the same time, retail expenses were also higher than planned, which was in part due to the appreciation of the dinar against the euro in 2017.
- At 2017 year-end, net income from indirect write-offs of loans and provisions was RSD 17.9 million, whereas the plan had envisaged a net expense of RSD 3,299.7 million.
- Operating and other business expenses were on target.
- In the period January-December 2017, the Bank generated earnings before tax of RSD 7,187.3 million, which was 58.6% higher than planned. The profit generated by the Bank in 2017 was in part due to the lower-than-planned loan impairment allowance and provisions.
- The Bank is stable and well-capitalised.

Signed on behalf of Komercijalna Banka a.d. Beograd

Miroslav Perić

Member of the Executive Board

Slađana Jelić

Deputy President of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

БЕОГРАД

2. Pomaunguk

KOMERCIJALNA BANKA
AD Beograd

Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 344 13 35
Registration No. 07737068
Tax Identification No. SR 100001931
VAT No. 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account No. 908-20501-70
SWIFT: KOBBRSBG
E-mail: posta@kombank.com
www.kombank.com

KOMERCIJALNA BANKA AD BEOGRAD
Svetog Save 14
11000 Beograd

20.04.2018.

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016) Komercijalna banka AD Beograd issues the following

STATEMENT

I hereby state that, according to my best knowledge and based on the opinion of an external auditor, the annual 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.

KOMERCIJALNA BANKA AD BEOGRAD

Miroslav Perić	dr Vladimir Medan
Member of the Executive Board	President of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

21

KOMERCIJALNA BANKA AD BEOGRAD
GENERAL MEETING OF BANK'S SHAREHOLDERS
No. 6380/1
Belgrade, 26.04.2018

Pursuant to the Article 14 of the Articles of Association of Komercijalna Banka AD Beograd (the revised text), the General Meeting of Shareholders of Komercijalna Banka AD Beograd, at its regular session held on 26.04.2018, passes the

DECISION
ON ADOPTION OF THE ANNUAL REPORT ON OPERATION OF KOMERCIJALNA BANKA AD BEOGRAD AND REGULAR FINANCIAL STATEMENTS FOR 2017 WITH EXTERNAL AUDITOR'S OPINION

I

Ascertained is the 2017 Annual Report of operation of Komercijalna Banka AD Beograd, with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Belgrade), as formulated in the text which is an integral part of this Decision.

II

Ascertained are the 2017 regular financial reports of Komercijalna Banka AD Beograd, with the report and opinion of the Bank's external auditor (Ernst & Young d.o.o. Belgrade):

1. Balance Sheet as of 31.12.2017;
2. Profit and Loss Statement Covering Period 01.01 through 31.12.2017;
3. Statement of Other Comprehensive Income Covering Period 01.01 through 31.12.2017;
4. Statement of Changes in Equity Covering Period 01.01 through 31.12.2017;
5. Cash Flow Statement Covering Period 01.01 through 31.12.2017;
6. Notes to Financial Statements for 2017 and
7. Statistical Report for 2017 as formulated

in the text which is an integral part of this Decision.

III

This Decision shall enter into force on the day of its adoption.

CHAIRPERSON OF
THE GENERAL MEETING OF BANK'S SHAREHOLDERS

Marijana Marković

KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF BANK'S SHAREHOLDERS

Number: 6380/3

Belgrade, 26 April 2018

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd (consolidated text), the General Meeting of Shareholders of Komercijalna banka AD Beograd, at its regular session held on 26 April 2018 passes the following

DECISION

ON DISTRIBUTION OF PROFIT OF **2017** AND RETAINED EARNINGS FROM PREVIOUS YEARS

I

The profit generated in 2017 and the accumulated retained earnings from previous years shall be distributed as follows:

NO.,	DESCRIPTION	Current profit of 2017	Accumulated retained earnings from previous years	TOTAL PROFIT FOR DISTRIBUTION
1	2	3	4	5(3+4)
1.	**PROFIT FOR DISTRIBUTION:**	**8,117,367,566.51**	**19,881,193.59**	**8,137,248,760.10**
	TO BE DISTRIBUTED FOR THE FOLLOWING PURPOSES:			
2.1.	IFRS 9	1,161,693,041.83		1,161,693,041.83
2.2.	Dividends on ordinary shares (ISIN: RSKOBBE16946, CFI: ESVUFR) in accordance with the Dividend Policy (31% of net profit generated in 2017)	2,522,693,400.00		2,522,693,400.00
2.3.	Dividends on preferred shares (ISIN: RSKOBBE19692, CFI: EPNXAR) in accordance with the Decision on Preferred Share Issue (at the average rate on savings deposits with a term of more than 12 months).	13,222,254.00		13,222,254.00
	The Dividend Data on which the list of shareholders is determined is 16 April 2018, in accordance with Article 13a of the Shareholder Agreement			
2.4.	Core capital – Bank's reserves	3,162,000,000.00		3,162,000,000.00
2.5.	Profit-sharing rewards for Bank's employees in accordance with the decision of the Compensation Committee	398,640,064.27		398,640,064.27
2.	**TOTAL DISTRIBUTED PROFIT (2.1 + 2.2 +2.3 +2.4 +2.5)**	**7,258,248,760.10**	**0.00**	**7,258,248,760.10**
3.	RETAINED EARNINGS (1-2)	859,118,806.41	19,881,193.59	879,000,000.00

II

The profit distribution provided for in section I, positions 2.2. and 2.3 and 2.5, shall be made in accordance with the Law on Banks and the Dividend Policy

The profit distribution provided for in section I, positions 2.5. shall be made in accordance with the Law on Banks.

III

This Decision shall be enforced by the Bank's Executive Board.

IV

This Decision shall come into force on the day of its adoption.

CHAIRPERSON
OF GENERAL MEETING OF BANK'S SHAREHOLDERS

Marijana Marković