KOMERCIJALNA BANKA AD BEOGRAD

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2017

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

BALANCE SHEET - CONSOLIDATED
as at 31.12.2017

(in RSD thousand)

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount: Closing balance	Previous year amount: Opening balance
1	2	3	4	5	6	7
00 without 002, 010, 025, 05 (exept 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of account 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with the central bank	0001	3; 19	56.076.748	61.919.102	
	Pledged financial assets	0002		-	-	
120, 220, 125 and 225	Financial assets recognised at fair value through income statement and held for trading	0003	3; 20	5.424.642	247.862	
121 and 221	Financial assets initially recognised at fair value through income statement	0004		-	-	
122, 222, part of 129 and part of 229	Financial assets available for sale	0005	3; 21	116.097.938	139.808.210	
124, 224, part of 129 and part of 229	Financial assets held to maturity	0006	3; 22	-	368.999	
002, 01 (except 010 and part of 019), part of 020, 028, 050, 052, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, part of 493 and part of 593 as deductibles (SSKR - SS code 1 (without code 17), code 70 and parts of codes 71 and 74) and parts of account 009, 029, 059, 089, 199 and 299	Loans and receivables from banks and other financial organisations	0007	3; 23	30.233.555	43.216.681	
01 (except 010 and part of 019), part of 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, part of 493 and part of 593 as deductibles (SSKR - SS code 17 and all other codes, except code 70 and parts of codes 71 and 74) and parts of account 029, 069, 089, 199 and 299	Loans and receivables from clients	0008	3; 24	174.242.139	166.401.008	
123 and 223	Change in fair value of hedged items	0009		-	-	
126 and 226	Receivables arising from hedging derivatives	0010		-	-	
130, 131, 230, 231, part of 139 and part of 239	Investments in associated companies and joint ventures	0011		-	-	
132, 232, part of 139 and part of 239	Investments into subsidiaries	0012		-	-	
33	Intangible investments	0013	3; 25	498.387	394.546	
34	Property, plant and equipment	0014	3; 26	6.017.200	6.251.187	
35	Investment property	0015	3; 27	2.380.564	2.608.051	
034 and part of 039	Current tax assets	0016	18	5.622	7.283	
37	Deferred tax assets	0017	18	863.527	-	
36	Non-current assets held for sale and discontinued operations	0018	28	787.618	349.523	
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of account 029, 089, 139, 199, 239 and 299	Other assets	0019	3; 29	7.480.376	7.255.156	
	TOTAL ASSETS (from 0001 to 0019)	0020		**400.108.316**	**428.827.608**	**-**

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
411, 416, 511, 516	**LIABILITIES** LIABILITIES Financial liabilities recognised at fair value through income statement and held for trading	0401	3; 30	7.845	-	
415 and 515	Financial liabilities initially recognised at fair value through income statement	0402		-	-	
417 and 517	Liabilities arising from hedging derivatives	0403		-	-	
part of 40, part of 420, part of 421, part of 490, part of 50, part of 520, part of 521, part of 590, part of 193 and part of 293 as deductibles (SSKR – SS code 1 (without code 17), code 70 and parts of codes 71 and 74)	Deposits and other liabilities to banks, other financial organisations and central bank	0404	3; 31	6.137.776	9.822.519	
part of 40, part of 420, part of 421, part of 490, part of 50, part of 520, part of 521, part of 590, part of 193 and part of 293 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74)	Deposits and other liabilities to other clients	0405	3; 32	317.577.748	345.135.959	
418 and 518	Change in fair value of hedged items	0406		-	-	
410, 412, 423, 496, 510, 512, 523, 596 and 127 as a deductibles	Own securities issued and other borrowings	0407		-	-	
424, 425, 482, 497, 524, 525, 582, 597 and parts of 193 and 293 as deductible items	Subordinated liabilities	0408	3; 33	-	6.178.390	
450, 451, 452, 453 and 454	Provisions	0409	3; 34	1.551.883	2.021.507	
46	Liabilities under assets held for sale and discontinued operations	0410		-	-	
455	Current tax liabilities	0411	18	1.751	9.027	
47	Deferred tax liabilities	0412	18	1.647	53.457	
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0413	35	7.729.550	6.314.329	
	TOTAL LIABILITIES (from 0401 to 0413)	0414		**333.008.200**	**369.535.188**	-
80	CAPITAL Share capital	0415	3; 36	40.034.550	40.034.550	
128	Own shares	0416		-	-	
83	Profit	0417	36	8.357.092	545.985	
84	Loss	0418	36	1.665.678	7.048.674	
81 and 82 – credit balance	Reserves	0419	3; 36	20.374.087	25.760.493	
81 and 82 – debit balance	Unrealized losses	0420			-	
	Non-controlling participation	0421	3; 36	65	66	
	TOTAL CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422		**67.100.116**	**59.292.420**	-
	TOTAL CAPITAL SHORTFALL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423		-	-	-
	TOTAL LIABILITIES (0414 + 0422 - 0423)	0424		**400.108.316**	**428.827.608**	-

In Belgrade

On 15.03.2018.

Legal representative of the bank

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

INCOME STATEMENT - CONSOLIDATED

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

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3; 8	15.358.399	17.934.819
60	Interest expenses	1	0	0	2	3; 8	1.841.161	3.478.486
	Net interest income (1001 - 1002)	1	0	0	3		**13.517.238**	**14.456.333**
	Net interest expenses (1002 - 1001)	1	0	0	4		**-**	**-**
71	Income from fees and commissions	1	0	0	5	3; 9	7.159.507	6.643.289
61	Expenses on fees and commissions	1	0	0	6	3; 9	1.745.906	1.549.766
	Net income from fees and commissions (1005 - 1006)	1	0	0	7		**5.413.601**	**5.093.523**
	Net expenses on fees and commissions (1006 - 1005)	1	0	0	8		**-**	**-**
720-620+771-671+774-674	Net gains from financial assets held for trading	1	0	0	9	3; 10	108.900	76.323
620-720+671-771+674-774	Net losses on financial assets held for trading	1	0	1	0		-	-
775-675+770-670	Net gains from hedging	1	0	1	1		-	-
675-775+670-770	Net losses on hedging	1	0	1	2		-	-
725-625+776-676	Net gains from financial assets initially recognised at fair value through income statement	1	0	1	3		-	-
625-725+676-776	Net losses on financial assets initially recognised at fair value through income statement	1	0	1	4		-	-
721-621	Net gains from financial assets available for sale	1	0	1	5	11	55.243	194.568
621-721	Net losses on financial assets available for sale	1	0	1	6		-	-
78-68	Net exchange rate gains and gains from agreed currency clause	1	0	1	7	3; 12	-	6.076
68-78	Net exchange rate losses and losses on agreed currency clause	1	0	1	8	3; 12	77.402	**-**
723-623	Net gains from investments in associated companies and joint ventures	1	0	1	9	13	306	5.143
623-723	Net losses on investments in associated companies and joint ventures	1	0	2	0		-	-
724, 74, 752, 753, 76 (except 760, 769), 772, 773	Other operating income	1	0	2	1	3; 13	980.341	607.976
750-650+751-651+760-660	Net income from reduction in impairment of financial assets and credit risk-weighted off-balance sheet items	1	0	2	2	14	36.342	-
650-750+651-751+660-760	Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	1	0	2	3	14	-	13.079.497
	TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1	0	2	4		**20.034.569**	**7.360.445**

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
	TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1	0	2	5		-	-
63, 655, 755	Salaries, salary compensations and other personal expenses	1	0	2	6	3; 15	5.130.812	5.059.469
642	Depreciation costs	1	0	2	7	3; 16	625.680	729.726
64 (except 642), 624, 652, 653, 66 (except 660 and 669), 672, 673	Other expenses	1	0	2	8	17	6.961.694	8.104.936
	PROFIT BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1	0	2	9		**7.316.383**	-
	LOSSES BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1	0	3	0		-	**6.533.686**
850	Profit tax	1	0	3	1	3; 18	9.381	21.318
861	Gains from deferred taxes	1	0	3	2	3; 18	1.366.704	315.718
860	Losses on deferred taxes	1	0	3	3	3; 18	405.710	1.844
	PROFIT AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	4		**8.267.996**	-
	LOSSES AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	5		-	**6.241.130**
769-669	Net profit from discontinued operations	1	0	3	6		-	-
669-769	Net losses on discontinued operations	1	0	3	7		-	-
	RESULT FOR THE PERIOD – PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1	0	3	8		**8.267.996**	-
	RESULT FOR THE PERIOD – LOSSES (1034 - 1035 + 1036 - 1037) < 0	1	0	3	9		-	**6.241.130**
	Profit belonging to a parent entity	1	0	4	0		**8.267.995**	-
	Profit belonging to non-controlling owners	1	0	4	1		**1**	-
	Losses belonging to a parent entity	1	0	4	2		-	**6.241.130**
	Losses belonging to non-controlling owners	1	0	4	3		-	-
	EARNINGS PER SHARE							
	Basic earnings per share (in dinars, without paras)	1	0	4	4	3;36.2	482	-
	Diluted earnings per share (in dinars, without paras)	1	0	4	5	3;36.2	482	-

In Belgrade
On 15.03.2018.

Legal representative of the bank

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

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

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

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Note No	Current year	Previous year
1	2	3				4	5	6
	PROFIT FOR THE PERIOD	2	0	0	1		8.267.996	-
	LOSS FOR THE PERIOD	2	0	0	2		-	6.241.130
820	**Other comprehensive income for the period** **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves arising from intangible investments and fixed assets	2	0	0	3	36	-	178.371
820	Decrease in revaluation reserves arising from intangible investments and fixed assets	2	0	0	4		-	-
822	Actuarial gains	2	0	0	5	34; 36	25.985	1.665
822	Actuarial losses	2	0	0	6	34; 36	286	4.011
825	Positive effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2	0	0	7		-	-
825	Negative effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2	0	0	8		-	-
821	**Components of other comprehensive income which may be reclassified to profit or loss:** Positive effects of change in fair value of financial assets available for sale	2	0	0	9	36.3	100.482	683.461
823	Unrealized losses on securities available for sale	2	0	1	0	36.3	287.757	60.257
824	Gains from cash flow hedges	2	0	1	1		-	-
824	Losses on cash flow hedges	2	0	1	2		-	-
826	Cumulative translation gains for foreign operations	2	0	1	3	36.	-	87.708
826	Cumulative translation losses for foreign operations	2	0	1	4	36.	268.955	-
826	Positive effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2	0	1	5		-	-
826	Negative effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2	0	1	6		-	-
82	Tax gains pertaining to other comprehensive income for the period	2	0	1	7	36.	39.811	2.386
82	Tax losses pertaining to other comprehensive income of the period	2	0	1	8	36.	86.678	116.050
	Total positive other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2	0	1	9		**-**	**773.273**
	Total negative other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2	0	2	0		**477.398**	-
	TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2	0	2	1		**7.790.598**	**-**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2	0	2	2		**-**	**5.467.857**
	Total positive comprehensive income for the period belonging to a parent entity	2	0	2	3		**7.790.597**	**-**
	Total positive comprehensive income for the period belonging to non-controlling owners	2	0	2	4		**1**	-
	Total negative comprehensive income for the period belonging to a parent entity	2	0	2	5		-	**5.467.857**
	Total negative comprehensive income for the period belonging to non-controlling owners	2	0	2	6			

In Belgrade

On 15.03.2018.

Legal representative of the bank

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

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED
in the period from 01.01. to 31.12.2017.

(in RSD thousand)

No	DESCRIPTION	ADP code	Share capital and other equity (accounts 800, 801,803)	ADP code	Own shares (account 128)	ADP code	Premium on issue of shares (account 802)	ADP code	Reserves from profit and other reserves (group of accounts 81)	ADP code	Revaluation reserves (group of accounts 82 credit balance)	ADP code	Revaluation reserves (group of accounts 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840, 841, 842)	ADP code	Total (columns 2-3+4+5+6-7+8-9) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9) < 0
	1		2		3		4		5		6		7		8		9		10		11
1.	**Opening balance as at 1 January of the previous year**	4001	17.191.528	4029	-	4057	22.843.084	4085	25.737.160	4113	5.958.979	4127	270.108	4141	195.933	4175	6.962.174	4209	64.694.402	4215	-
2.	Adjustment for material errors and changes in accounting policies in the previous year – increase	4002	-	4030	-	4058	-	4086	-	4114	-	4128	-	4142	-	4176	-	x	x	x	x
3.	Adjustment for material errors and changes in accounting policies in the previous year – decrease	4003	-	4031	-	4059	-	4087	-	4115	-	4129	-	4143	-	4177	-	x	x	x	x
4.	**The adjusted opening balance as at 1 January of the previous year (No 1+2-3)**	4004	17.191.528	4032	-	4060	22.843.084	4088	25.737.160	4116	5.958.979	4130	270.108	4144	195.933	4178	6.962.174	4210	64.694.402	4216	-
5.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4117	548.165	4131	243.119	x	x	x	x	x	x	x	x
6.	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4118	-	4132	40.170	x	x	x	x	x	x	x	x
7.	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4145	-	x	x	x	x	x	x
8.	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4179	6.241.130	x	x	x	x
9.	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4146	131.550	4180	-	x	x	x	x
10.	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4147	-	4181	-	x	x	x	x
11.	Transactions with owners recognized directly in equity – increase	4005	-	4033	-	4061	-	4089	-	x	x	x	x	4148	-	4182	-	x	x	x	x
12.	Transactions with owners recognized directly in equity – decrease	4006	-	4034	-	4062	-	4090	-	x	x	x	x	4149	-	4183	-	x	x	x	x
13.	Distribution of profit – increase	4007	-	4035	-	4063	-	4091	-	x	x	x	x	4150	-	4184	-	x	x	x	x
14.	Distribution of profit and/or coverage of losses – decrease	4008	-	4036	-	4064	-	4092	6.428.819	x	x	x	x	4151	161.223	4185	6.458.492	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	1	4038	-	4066	-	4094	12.170	x	x	x	x	4153	403.256	4187	303.862	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 (No 11-12+13-14-15+16-17) ≥ 0**	4012	1	4040	-	4068	-	4096	-	x	x	x	x	4155	218.502	4189	-	x	x	x	x
19.	**Total transactions with owners (No 11-12+13-14-15+16-17) < 0**	4013	-	4041	-	4069	-	4097	6.416.649	x	x	x	x	4156	-	4190	6.154.630	x	x	x	x
20.	**Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)**	4014	17.191.529	4042	-	4070	22.843.084	4098	19.320.511	4119	6.507.144	4133	67.159	4157	545.985	4191	7.048.674	4211	59.292.420	4217	-

No	DESCRIPTION	ADP code	Share capital and other equity (accounts 800, 801,803)	ADP code	Own shares (account 128)	ADP code	Premium on issue of shares (account 802)	ADP code	Reserves from profit and other reserves (group of accounts 81)	ADP code	Revaluation reserves (group of accounts 82 credit balance)	ADP code	Revaluation reserves (group of accounts 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840, 841, 842)	ADP code	Total (columns 2-3+4+5+6-7+8-9) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9) < 0
	1		2		3		4		5		6		7		8		9		10		11
21.	**Opening balance as at 1 January of the current year**	4015	17.191.529	4043	-	4071	22.843.084	4099	19.320.511	4120	6.507.144	4134	67.159	4158	545.985	4192	7.048.674	4212	59.292.420	4218	-
22.	Adjustment for material errors and changes in accounting policies in the previous year – increase	4016	-	4044	-	4072	-	4100	-	4121	-	4135	-	4159	-	4193	-	x	x	x	x
23.	Adjustment for material errors and changes in accounting policies in the previous year – decrease	4017	-	4045	-	4073	-	4101	-	4122	-	4136	-	4160	-	4194	-	x	x	x	x
24.	**Adjusted opening balance as at 1 January of the current year (No 21+22-23)**	4018	17.191.529	4046	-	4074	22.843.084	4102	19.320.511	4123	6.507.144	4137	67.159	4161	545.985	4195	7.048.674	4213	59.292.420	4219	-
25.	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4124	102.454	4138	4.056	x	x	x	x	x	x	x	x
26.	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4125	565.840	4139	46.091	x	x	x	x	x	x	x	x
27.	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4162	8.267.996	x	x	x	x	x	x
28.	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4196	-	x	x	x	x
29.	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4163	-	4197	-	x	x	x	x
30.	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4164	-	4198	-	x	x	x	x
31.	Transactions with owners recognized directly in equity – increase	4019	-	4047	-	4075	-	4103	-	x	x	x	x	4165	-	4199	-	x	x	x	x
32.	Transactions with owners recognized directly in equity – decrease	4020	-	4048	-	4076	-	4104	-	x	x	x	x	4166	-	4200	-	x	x	x	x
33.	Distribution of profit – increase	4021	-	4049	-	4077	-	4105	1.686	x	x	x	x	4167	-	4201	-	x	x	x	x
34.	Distribution of profit and/or coverage of losses – decrease	4022	-	4050	-	4078	-	4106	4.861.264	x	x	x	x	4168	352.895	4202	5.212.472	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	2	4053	-	4081	-	4109	21.408	x	x	x	x	4171	107.065	4205	170.524	x	x	x	x
38.	**Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0**	4026	-	4054	-	4082	-	4110	-	x	x	x	x	4172	-	4206	-	x	x	x	x
39.	**Total transactions with owners (No 31-32+33-34-35+36- 37) < 0**	4027	2	4055	-	4083	-	4111	4.880.986	x	x	x	x	4173	456.887	4207	5.382.996	x	x	x	x
40.	**Balance as at 31 December of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)**	4028	17.191.527	4056	-	4084	22.843.084	4112	14.439.525	4126	6.043.758	4140	109.194	4174	8.357.094	4208	1.665.678	4214	67.100.116	4220	-

In Belgrade
On 15.03.2018.

Legal representative of the bank

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Completed by bank

Registration number: 07737068	**Activity code: 6419**	**TIN: 100001931**

Name: KOMERCIJALNA BANKA AD BEOGRAD

Head office: Beograd, Svetog Save 14

CASH FLOW STATEMENT - CONSOLIDATED
in the period from 01.01. to 31.12.2017.

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A. I.	CASH FLOW FROM OPERATING ACTIVITIES Cash inflow from operating activities (from 3002 to 3005)	3001	25.477.618	25.910.395
1.	Interest	3002	16.831.503	18.999.073
2.	Fees	3003	7.130.230	6.645.894
3.	Other operating income	3004	1.506.720	249.716
4.	Dividends and profit sharing	3005	9.165	15.712
II.	Cash outflow from operating activities (from 3007 to 3011)	3006	16.078.175	17.780.872
5.	Interest	3007	2.330.310	4.611.405
6.	Fees	3008	1.732.233	1.548.563
7.	Gross salaries, salary compensations and other personal expenses	3009	5.319.334	4.975.861
8.	Taxes, contributions and other duties charged to income	3010	952.230	850.525
9.	Other operating expenses	3011	5.744.068	5.794.518
III.	Net cash inflow from operating activities before an increase or decrease in lending and deposits (3001 - 3006)	3012	**9.399.443**	**8.129.523**
IV.	Net cash outflow from operating activities before an increase or decrease in lending and deposits (3006 - 3001)	3013	**-**	**-**
V.	Decrease in lending and increase in deposits received and other liabilities (from 3015 to 3020)	3014	**9.116.184**	**39.021.996**
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
11.	Decrease in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3016	9.116.184	12.160.679
12.	Decrease in receivables arising from hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other liabilities to banks, other financial organisations, central bank and clients	3018	-	26.861.317
14.	Increase in financial liabilities initially recognised at fair value through income statement and financial liabilities held for trading	3019	-	-
15.	Increase in liabilities arising from hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	Increase in lending and decrease in deposits received and other liabilities (from 3022 to 3027)	3021	19.762.558	15.888.347
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	9.158.441	15.888.347
17.	Increase in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3023	-	-
18.	Increase in receivables arising from hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other liabilities to banks, other financial organisations, central banks and clients	3025	10.604.117	-
20.	Decrease in financial liabilities initially recognised at fair value through income statement and financial assets held for trading	3026	-	-
21.	Decrease in liabilities arising from hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3028	-	31.263.172
VIII.	Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	1.246.931	-
22.	Profit tax paid	3030	15.211	32.936
23.	Dividends paid	3031	-	119.477
IX.	Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	-	31.110.759
X.	Net cash outflow for operating activities (3029 - 3028 + 3030 + 3031)	3033	1.262.142	-

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
B. I.	CASH FLOW FROM INVESTING ACTIVITIES Cash inflow from investing activities (from 3035 to 3039)	3034	55.015.287	40.753.985
1.	Investment in investment securities	3035	54.892.983	40.739.298
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	3.422	1.092
4.	Sale of investment property	3038	118.882	13.595
5.	Other inflow from investing activities	3039	-	-
II.	Cash outflow for investing activities (from 3041 to 3045)	3040	52.116.437	58.443.427
6.	Investment into investment securities	3041	51.604.856	57.848.368
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	511.581	595.059
9.	Purchase of investment property	3044	-	-
10.	Other outflow for investing activities	3045	-	-
III.	Net cash inflow from investing activities (3034 - 3040)	3046	2.898.850	-
IV.	Net cash outflow for investing activities (3040 - 3034)	3047	-	17.689.442
C. I.	CASH FLOW FROM FINANCING ACTIVITIES Cash inflow from financing activities (from 3049 to 3054)	3048	88.053.291	124.293.315
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	88.053.291	124.293.315
4.	Issuance of own securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	Cash outflow for financing activities (from 3056 to 3060)	3055	99.385.677	136.856.025
7.	Purchase of own shares	3056		-
8.	Subordinated liabilities	3057	5.923.635	-
9.	Loans taken	3058	93.462.042	136.856.025
10.	Issuance of own securities	3059		-
11.	Other outflow for financing activities	3060		-
III.	Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV.	Net cash outflow for financing activities (3055 - 3048)	3062	11.332.386	12.562.710
D.	TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	177.662.380	229.979.691
E.	TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	187.358.058	229.121.084
F.	NET INCREASE IN CASH (3063-3064)	3065	-	858.607
G.	NET DECREASE IN CASH (3064-3063)	3066	9.695.678	-
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	39.661.743	38.666.685
I.	EXCHANGE RATE GAINS	3068	843.573	963.271
J.	EXCHANGE RATE LOSSES	3069	1.851.989	826.820
K.	CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	28.957.649	39.661.743

In Belgrade
On 15.03.2018.

Legal representative of the bank

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KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2017

Belgrade, March 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka AD, Belgrade (hereinafter "The Parent Bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991. The tax identification number of the Parent Bank is 100001931.

The largest share in the controlling activities of the parent banks is:

Republic of Serbia	41.74%
EBRD, London	24.43%

The parent bank has three dependent legal entities with ownership:

- 100% - Komercijalna banka ad, Budva, Montenegro
- 100% - Investment Management Company KomBank INVEST ad, Belgrade, Serbia
- 99.998% - Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad, Banja Luka, with 0.002% is the Agency for Export, Insurance and Financing of the Republic of Serbia.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka AD, Budva, Komercijalna Banka ad, Banja Luka and KomBank INVEST ad Investment Company, Belgrade (in further text: "Group").

Komercijalna banka ad, Budva was founded in November 2002 as an affiliate of Komercijalna banka AD, Belgrade and registered in the central registry of the Commercial Court in Podgorica on March 6, 2003. The registration number of Komercijalna banka AD, Budva is 02373262.

Komercijalna banka AD, Banja Luka was established in September 2006 and on September 15, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka. The registration number of Komercijalna banka AD, Banja Luka is 11009778.

Investment Management Company KomBank INVEST ad, Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758.

The Group's activities include credit, deposit and guarantee operations and payment transactions in the country and abroad in accordance with the Banking Law, as well as investment fund management activities. The Group is obliged to operate according to the principles of liquidity, safety and profitability.

On December 31, 2017, the Group consists of: the head office and the headquarters of the Parent Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Budva in Budva - PC Podkosljun bb; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Veselina Maslese street no. 6; the head office of the Investment Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 11 business centers, 13 branches and 220 branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2016: 34 branches and 228 branches).

As at 31 December 2017, the Group had 3,106 employees, and on December 31, 2016, 3,152 employees.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for compiling and presenting consolidated financial statements

The Group's consolidated financial statements for 2017 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 71/2014 and 135/2014).

Consolidated financial statements have been prepared in accordance with the historical cost principle, unless otherwise stated in the accounting policies set out below.

In preparing these financial statements, the parent bank applied the accounting policies set out in Note 3.

During 2017, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

For the purpose of preparing consolidated financial statements, individual financial statements of subsidiary banks have been adapted to the presentation of financial statements based on the accounting regulations of the Republic of Serbia.

The consolidated financial statements of the Group are expressed in thousands of RSD. Dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are quoted in RSD and rounded up in thousands.

Functional currencies of the EUR from the financial statements of Komercijalna banka AD, Budva and BAM from the financial statements of Komercijalna banka ad, Banja Luka are converted into the reporting currency, ie the functional currency of the Parent bank - dinar (RSD) on the basis of the official published rates in the Republic of Serbia.

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 members of the Group 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 Group.

- **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 Group.

- 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 Group's financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

  - ***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.

2.3. 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 Group'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 Group'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 Group's financial statements

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF 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 Group'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 Group'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 Group'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 Group'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 Group's financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

- **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 Group's financial statements.

- **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 Group'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 Group'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 Group'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 Group'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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

- ***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 Group set up a project to implement IFRS 9 which is lead by the deputy Chief Executive Officer competent for risk. During the Project, the Group 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. The Group 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.

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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

IFRS 9 "Financial Instruments" (continued)

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 Group 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 Group 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 Groupdoes 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:

• 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 Group's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Group 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 Group 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 Group 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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

IFRS 9 "Financial Instruments" (continued)

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 Group 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.

Segment 3

As in accordance with IAS 39, financial instruments are included 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 Group 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 Group 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 1.29 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 Group 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 Group will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Group 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 have been prepared in accordance with the going concern principle, which implies that the Group will continue to operate in an unlimited period in the foreseeable future.

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

The accounting policies set forth below by the Group members consistently apply at all times presented in these financial statements.

(a) Consolidation

The parent bank has control over the following legal entities, the consolidation of which has been made in these financial statements:

Legal entity	Share in capital
Komercijalna banka ad, Budva, Montenegro	100.00%
Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina	99.99%
Investment Management Company KomBank Invest a.d., Belgrade	100.00%

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been reclassified using the average exchange rate in the Republic of Serbia for 2017 of 121,4027 for one EUR and 62,0722 for one BAM and other consolidated financial statements (balance sheet, report on the rest of the result and statement of changes in equity) by applying the closing exchange rate on the balance sheet date of 118.4727 for one EUR or 60.5741 for one BAM.

(b) Conversion of foreign exchange amounts

Business changes in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business change.

Monetary positions in foreign currency assets and liabilities, which are stated at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the income statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business change.

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, were the following:

		In RSD
	2017.	**2016.**
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473
BAM	60.5741	63.1304

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense is recognized in the income statement using the effective interest rate method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, Group members estimate future cash flows taking into account all contractual terms relating to a financial instrument, but not future losses that may arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Interest income and expense included in the overall result report include:

- Interest calculated for financial assets and financial liabilities valued at amortized cost using the effective interest rate; and
- Interest on the basis of investment securities available for sale

Interest income and expense for all assets and liabilities traded is considered to be incidental to the trading activities of the Group's members and are presented together with all other changes in the fair value of assets and liabilities traded under net trading income.

(d) Fees and commissions

Fee and commission income and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate.

Other income from fees and commissions is recorded at the moment of providing services. Fee and commission income includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services.

Other fees and commissions are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

(e) Net trading income

Net trading income includes gains less losses due to trading in assets and liabilities, including all realized and unrealized changes in fair value and foreign exchange gains.

(f) Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss relates to financial assets and liabilities at fair value through profit and loss and include all realized and unrealized changes in their fair value.

(g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are shown in the position of other income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Operational and financial leasing

All payments made during the year under operating lease are recorded as an expense in the income statement equally straightforward over the lease term. Approved leasing incentives are recognized within the total cost of leasing during the lease period.

The minimum lease rate for a financial lease is allocated between the financial costs and the reduction of the remaining amount of the financial lease obligation. Financial expenses are divided into all periods during the lease period, giving a uniform periodic interest rate for the remaining amount of the lease obligation.

(i) Tax expense

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the income statement except to the extent that they relate to items that are recognized directly within the capital or within the overall result.

(I) Current income tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

(II) Deferred taxes

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net 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 the amount of deferred tax liabilities or assets.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that can be transferred to subsequent fiscal periods to the extent that there is likely to be a taxable profit from which tax loss is transferred and loans can be reduced. Deferred tax assets are subject to an analysis at the end of each reporting period and are adjusted to the extent that it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(III) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, the Group members pay different taxes and contributions, value added tax, capital gains tax and earnings contributions. These expenditures are included in "Other Business Expenses".

(j) Financial assets and liabilities

(I) Recognition

Members of the Group perform initial recognition of placements, deposits, loans and subordinated liabilities when they are placed or received. All other financial assets and liabilities are initially recognized at the date when the Group enters into a contractual relationship in accordance with the terms of a given financial instrument.

An initial valuation of financial assets or financial liabilities is carried at fair value plus items that are not carried at fair value through profit and loss account, for transaction costs that can be directly attributed to their purchase or issue.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(II) Classification

Group members classify financial assets into the following categories: financial assets for trade, loans and receivables and investment securities. See accounting policies 3 (k), 3 (l) and 3 (lj).

Members of the Group evaluate their financial liabilities at amortized cost or classify them as liabilities held for trading. More details are given in the section on accounting policies.

(III) Termination of recognition

Members of the Group cease to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when a member of the Group transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that a Group member has created or retained is recognized as a separate asset or liability in the balance sheet. Upon termination of the recognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collect the received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the income statement.

A member of the Group carries out transactions by which he transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset.The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which a member of the Group neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, a member of the Group continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. A member of the Group shall execute the obligation when the obligation is settled, terminated or transferred to another.

(IV) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Group has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a group of similar transactions, such as transactions held by the Group's members in trading.

(V) Valuation at amortized cost

The depreciated value of a financial asset or liability is the amount by which the assets or liabilities are initially valued, net of principal repayments, plus or decreased by accumulated depreciation using the effective interest rate method on the difference between the initial value and the nominal value on the maturity date of the instrument, less impairment.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(VI) Valuation at fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the parties involved, willing parties in a transaction under market conditions.

Whenever possible, the Group members measure fair value using market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions under market conditions.

In the event that the market for financial instruments is not active, members of the Group determine fair value using the estimation methodology. Estimation methodologies include transactions on market terms between the involved parties, willing parties (if available), reference to the existing fair value of other instruments that are substantially the same, discounted cash flow analysis and other alternative methods. The selected assessment methodology maximizes the use of market data and it is based on the least possible extent on estimates that are specific to the member of the Group, it includes all factors considered by the market participants as determining for the price, and in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. A member of the Group adjusts estimation methods and tests their accuracy by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price realized in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (ie without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the particular facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-determinable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when transferring or alienating them, or when the fair value becomes apparent. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of a Group member and another counterparty, where relevant. Estimates of fair values based on valuation models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that a member of the Group considers that third parties in the market can take them into account when determining the transaction price.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(VII) Identification and evaluation of impairment

On the balance sheet date, the Group's members assess whether there is objective evidence of the impairment of financial assets that are not recorded at fair value through profit and loss. A financial asset or group of financial assets is considered impaired when the evidence indicates the occurrence of the loss event after the initial recognition of the asset, and that the event of loss affects future cash flows related to the asset that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can consist of significant financial difficulties of the debtor or issuer, failure to fulfill or breach of the debtor's contractual obligations, refinancing of the loan by the bank in a manner that the bank would otherwise not take into consideration, an indication to initiate bankruptcy proceedings against a debtor or issuer, the disappearance of an active securities market, or other noticeable data relating to a group of assets, such as unfavourable changes in the credit status of the debtor or issuer within the group, or economic conditions that correspond to violations of obligations within the Group. Furthermore, for investments in equity securities, a significant or continuous decrease in their fair value below their cost is an objective evidence of impairment.

A member of the Group considers evidence of impairment of placements, as well as securities held to maturity, both at the level of the individual asset and at the group level. All individually significant loans, as well as securities held to maturity are assessed individually for impairment. All individually significant loans, as well as securities held to maturity that are found not individually impaired, are group assessed for the impairment that was incurred but not identified. Loans and securities held to maturity that are not individually significant are grouped into impairment by grouping loans and securities held to maturity by similar characteristics.

In assessing group impairment, a Group member uses statistical models of historical developments in the likelihood that there will be a breach of the obligation, the time required for the return, and the amount of the resulting loss, corrected for the management's assessment of whether the current economic and credit conditions are such that the actual losses may be larger or smaller than those indicated by historical models. The rate of default, the loss rate and the expected time of future return are regularly compared with the actual results to determine whether they are appropriate.

Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are reflected in the provision for loan loss provisions. When events after the balance sheet date affect the amount of the impairment loss, such a loss reduction due to impairment is reversed through the income statement. Impairment losses on available-for-sale securities are recognized by transferring the aggregate amount of the recognized loss to the other comprehensive income in the income statement. The aggregate loss that is transferred from the rest of the total result to the income statement is the difference between the purchase price minus the amount of the repaid principal and depreciation and the current fair value less impairment losses previously recognized in the income statement. Changes in provisions for impairment losses attributable to the time value are included as a component of the interest rate.

If the fair value of impaired debt securities available for sale increases in the future period and the increase can be objectively attributed to the event that occurred after the recognition of the loss due to impairment in the income statement, then the impairment loss is reversed and the reversed amount is recognized in the balance sheet success. However, the subsequent recovery of the fair value of impaired equity securities available for sale is recognized within the rest of the overall result.

The Group members write off certain loans, placements and securities for which it is determined that they will not be collected (see note 4).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, used by the members of the Short-Term Liquidity Management Group.

Cash is carried at amortized cost in the balance sheet.

(l) Assets and liabilities held for trading

Assets and liabilities held for trading represent the assets and liabilities that the Group members are purchasing or originally intended to sell or repurchase in the near future, or which member of the Group holds within a portfolio that is uniquely managed for the purpose of short-term profit or the positioning of a position.

Assets and liabilities held for trading are initially recognized and subsequently measured at fair value in the balance sheet, with transaction costs recognized directly in the income statement. All changes in fair value are recognized in the net income from trading in the income statement. Assets and liabilities held for trading are not reclassified after their initial recognition, except that non-derivative assets held for trading, other than those designated at fair value through profit and loss at initial recognition, may be reclassified from the trading category, if they no longer comply with the objective sale or re-purchase in the near future, and if the following conditions are met:

• If a financial asset meets the definition of placements and receivables (if the financial asset did not have to be classified as held for trading on initial recognition), then it can be reclassified from the trading category only if the legal entity has the intention and the ability to hold a financial asset in the forward future or until it's due.
• If the financial asset does not meet the definition of placements and receivables, then it can be reclassified from a trading category, but only in rare cases.

Derivatives

Financial derivatives include forward and swap transactions. Financial derivatives are initially recognized at cost and subsequently translated at market value. Market values are derived from various valuation techniques, including discounting cash flows. Financial derivatives are accounted for in assets within the assets if their market value is positive, that is within the liabilities if their market value is negative. Changes in the market value of financial derivatives are recorded in the income statement, within the net trading income.

(l) 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 which members of the Group do not intend to sell in the short term. Loans and receivables arise when a bank deposits money or services to a debtor without the intention of further trading in these placements. Loans and receivables include placements to banks and placements to customers. Loans and receivables are initially valued at cost plus increased transaction costs. After initial recognition, loans and receivables are valued at amortized cost using the effective interest rate method.

Loans approved in RSD for which risk protection has been agreed by means of tying in for the RSD exchange rate against the euro, another foreign currency or the growth in the retail price indices are translated into RSD on the balance sheet date in accordance with the provisions of the specific loan agreement. The effects of the performed conversion are reported within the income and expenses from the exchange rate differences. Loans are presented in the amount less impairment for individual and group impairment provisions. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. If in the future period there is a decrease in impairment due to loss, and the reduction can be objectively attributable to an event occurring after the impairment loss has been recognized (such as an improvement in the credit rating of the debtor), then impairment provision is reversed for a previously recognized impairment loss. The impaired amount is recognized in the statement of the total result in the income from reversal of impairment losses for credit losses.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(m) Investment securities

Investment securities are initially valued at fair value, including all direct transaction costs, for all securities that are not stated at fair value through the income statement, while their subsequent valuation is done depending on their classification as securities held to maturity, as securities at fair value through profit or loss or as securities available for sale.

(I) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payment terms and fixed maturities, for which members of the Group have the intention and ability to hold them up to maturity and which are not presented as financial assets at fair value through profit or loss or as available-for-sale assets.

Financial assets held to maturity are stated at amortized cost using the effective interest rate method. In the event that a significant portion of held-to-maturity financial assets is sold, the entire category will be reclassified as available-for-sale, or a member of the Group will not be able to carry out a re-classification of held-to-maturity financial assets either in the current, in the next two reporting periods. However, the sale and reclassification in one of the following cases will not jeopardize reclassification:

• Sale or reclassification made immediately prior to maturity, so that changes in market interest rates would not have a significant impact on the fair value of a financial asset,
• Sales or reclassifications made after a member of the Group has collected the bulk of the principal of a financial asset; and
• Sales or reclassification relating to individual cases, which are not expected to occur again or are not controlled by a member of the Group, and as such can not be predicted to a reasonable extent.

(II) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets classified as held for trading or recognized by a member of the Group after initial recognition as financial assets at fair value through profit or loss. Financial assets at fair value through profit and loss are assets that are acquired or generated primarily for the purpose of sale or purchase in the near future, which are part of the portfolio of financial instruments that are jointly managed and for which there is evidence of a recent realization of profit in the short term or derivatives. The Group's management did not classify financial assets into a sub-category of assets that are stated at fair value through the income statement at initial recognition.

(III) Available-for-sale financial assets and equity investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or which are not classified in any other category of financial assets. Available-for-sale financial assets are placements for which there is an intention to hold in an indefinite period of time, which can be sold due to liquidity or due to changes in interest rates, foreign exchange rates or market prices.

If there is no active market for available-for-sale financial assets, their valuation is carried at cost. All other available-for-sale financial assets are valued at fair value.

Interest income and expense is recognized in the income statement using the effective interest rate method. The dividend income of a member of the Group is recognized at the moment of inflow of economic benefits. Foreign exchange gains and losses arising on available-for-sale securities are recognized under the income statement.

Other changes in fair value are recognized in the rest of the total result until the moment of sale or impairment of the securities when the cumulative income and expenses previously recognized within the rest of the total result are reclassified and reported in the income and expenses as a correction on the basis of reclassification .

In the case of available-for-sale financial assets, there is a decrease in fair value, with objective evidence of impairment of assets (long-term and continuous decline in value over a period of more than twelve months, as well as a decrease in value above 30% of the cost of assets), accumulated loss recognized directly in equity, is deducted from equity and recognized as an expense of impairment, although recognition of a financial asset has not ceased (IAS 39.59, IAS 39.67 and IAS 39.68).

Non-derivative financial assets may be reclassified from the category of available-for-sale assets in the category of loans and receivables where they meet the criteria defined for that category and if a member the Group also has the intention to keep these assets in the foreseeable future in the future or until their maturity.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Property and equipment

(I) Recognition and evaluation

Initial measurement of property and equipment is done at cost or at purchase price.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition, the equipment is measured at cost less accumulated amortization and total accumulated losses due to the decrease in value.

After initial recognition, the property is valued at the revaluation amount, which represents their fair value at the revaluation date less the subsequent accumulated amortization and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

When parts of the property or equipment have different useful lives, they are kept as separate items (main components) of the equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

(II) Subsequent costs

The cost of replacing an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replacement part is written off. The cost of regular servicing of property and equipment is recognized in the income statement when it arises.

(III) Depreciation

Depreciation is recognized in the income statement in equal annual amounts over the estimated useful lives of a given item of real estate, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

The applied depreciation rates in the current and previous accounting period are:

Description	**Estimated useful life (in years)**	**%**
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

Maintenance costs are recognized in the income statement for the period in which they are incurred.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(o) Intangible assets

Intangible assets are valued at cost or purchase price less depreciation and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 3 to 10 years, ie depreciation rates range from 10.00% to 33.34%.

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

(p) Investment property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost, ie price of the cost. The purchase value of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

For the subsequent evaluation of investment property, the Group members use the cost model, ie investment property is measured at cost less accumulated amortization and impairment losses.

Estimated lifetime of investment property is 40 years, and depreciation is calculated at a rate of 2.50%. Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the given real estate item, since this way best reflects the expected consumption of the useful economic value contained in the asset.

(q) Leasing

Under the leasing agreement, the members of the Group appear as a leasing user. Members of the Group classify leasing as financial in the case when the contract regulates that all risks and benefits on the basis of ownership of the leased object are transferred to the leasing user. All other leasing contracts are classified as operating lease contracts.

Leasing contracts relating to the lease of business premises in which the branches are located are mainly related to operational leasing. All payments made during the year under operating lease are recorded as the cost in the statement of the total result equally straightforward over the lease term.

Funds held under a finance lease are recognized as assets of the Group's members at their fair value or, if that value is lower, at the present value of the minimum lease payments determined at the beginning of the lease term. An appropriate obligation to the lessor is included in the financial position statement as a financial lease liability. The leasing rate is divided into the portion referring to the financial cost and the part that reduces the obligation on the basis of financial leasing, so that a constant interest rate on the remaining part of the obligation is achieved. The financial cost is expressed directly as the expense of the period.

(r) Impairment of non-financial assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are indicators indicating that their impairment has occurred. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value. For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(r) Impairment of non-financial assets (continued)

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortized, in the event that there was no recognition of the impairment loss.

(s) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities are the main source of financing for the Group.

The Group members classify financial instruments as financial liabilities or as equity in accordance with the substance of the contractual terms for a specific instrument.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(t) Provisions

Provision is recognized when a Group member is expected, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose reconstruction is expected to result in an outflow of resources representing economic benefits to a member of the Group. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(u) Benefits of employees

In accordance with regulations, members of the Group are obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. Members of the Group are also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period to which they relate.

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2017, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in note 34 (b).

(v) Financial guarantees

Financial guarantees are contracts that a Group member is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely). Financial guarantees are recorded under off-balance sheet items.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(w) Capital and reserves

The Group's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

The Group's capital was formed from the investments made by the founders of the Parent bank and the minority founder of Komercijalna banka ad, Banja Luka in cash and non-cash form. The founder may not withdraw funds invested in the Group's capital.

(x) Earnings per share

The Parent Bank displays basic and reduced earnings per share for its own ordinary shares. The basic earnings per share is calculated by dividing the gain or loss attributable to the owners of ordinary shares of the Parent Bank weighted average of the number of ordinary shares in circulation during the period.

The reduced earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(y) Segment reporting

The business segment is part of the Group - a member of the Group, which independently deals with business activities from which revenues can be generated and incurred, including revenues and expenses arising from transactions with other members of the Group, whose business result is regularly controlled by the parent bank's management (as the main operational decision maker), to make decisions about resource allocation by segments and evaluate their results. Separate audited financial statements are available for business segments of the Group

In accordance with the International Financial Reporting Standard 8 - Business Segments, the Group also discloses information about the operation of operational segments, thus providing information users with additional information on revenues and expenditures arising from key business activities (Note 6.2).

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting

4. RISK MANAGEMENT

The banking group recognized the risk management process as 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, or the establishment of risk limits , as well as reporting in accordance with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment.

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Group's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, significant changes were made in the organizational structure of the parent Bank in 2017 (grouping of branches into Business centers, changes in the function of the economy and population, changes in decision making), as well as changes in internal acts regulating 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 non-performing receivables and exposures to one person or a group of related parties has improved.

Starting from 30.06.2017. The Group applies the Basel III standard and has taken all necessary measures to timely align 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 Group analysis their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially possible negative effects on the financial the result of the Group.

4. RISK MANAGEMENT (continued)

Risk Management System

The risk management system is defined by the following acts:

• Risk Management Strategy and Strategy and Capital Management Plan;
• Risk management policies;
• Risk management procedures;
• Methodologies for managing individual risks;
• Other acts.

The risk management strategy defines:

• Long-term goals, determined by the Bank's business policy and strategy, as well as the risk and risk tolerance set in line with those goals;
• Basic principles of risk transfer and management;
• Basic principles of the internal assessment of the Group's capital adequacy;
• Overview and definitions of all risks to which the Group is or may be exposed.

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 Group.

The Banking Group 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 Group's regular business activities;
• 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;
• Transparent reporting.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

• The way of organizing the banking risk management process of the Banking Group and the 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 banking group and the methodology for identifying and measuring, or risk assessment;
• Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the banking Group 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 banking group;
• Principles of functioning of the internal control system;
• The framework and frequency of stress testing, as well as handling in cases of adverse stress test results.

Risk Management Procedures the Group details the risk management process and the responsibilities and responsibilities of all organizational parts of the parent Bank and members of the banking group in the risk management system.

The individual methodologies of the Group members set out in more detail the methods and approaches used in the risk management system.

In 2017, members of the Banking Group calculated the value adjustment in accordance with the IAS 39 and IAS 37 standards, which are applicable as of December 31, 2017. At the beginning of 2018, the Group members harmonized the internal acts (methodologies and procedures) in accordance with the amendments to the regulations of the National Bank of Serbia in the area 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 01.01.2018. In the year then, the impairment calculation is carried out in accordance with IFRS 9. In accordance with IFRS 9, the Group members have adopted a new Methodology for assessing impairment of balance sheet assets and probable loss on off-balance sheet items, which will apply from 01.01.2018.

Jurisdictions

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

The Executive Board is responsible and responsible for the implementation of the risk management strategy and strategy and the capital management strategy 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 analyses 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 Group's exposure to a person related to the Group and shall notify the Management Board accordingly.

The Audit Committee (Business Monitoring Committee) is responsible and responsible for the analysis and supervision of the application and adequate implementation of the adopted strategies and policies for risk management and internal control systems of the parent Bank and the Group. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the exposure to risks arising from the structure of balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk. Each member of the Group has an Asset and Liability Management Committee.

4. RISK MANAGEMENT (continued)

Jurisdiction (continued)

The Credit Committee decides on credit requirements within the framework of the Bank's founding regulations, analyses the exposure of the parent Bank to credit, interest and currency risk, analyses the loan portfolio, and also proposes measures to the Executive Board of the parent Bank. Each member of the Group has a credit committee which decides within its competencies and limits.

The risk management function of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are 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 banking group.

The Bank's Asset Management Division is responsible for managing assets and liquidity, as well as managing Assets and Liabilities at the Group level. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The compliance function is obliged to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk management process

At the banking group level, the risks identified in the business are assessed regularly. Measurement implies the application of qualitative and quantitative methods and measurement models that allow for the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, their significance is determined based on a comprehensive risk assessment that is characteristic of particular business, products, activities and processes of the banking group.

Risk mitigation involves diversification, transfer, reduction and / or risk avoidance, in line with risk profile, risk pricing and risk tolerance for the banking group.

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

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

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 risk assessment and risk conclusions. Members of the Group report monthly on the organizational part of the Bank's risk management.

Types of risk

The Banking Group is particularly exposed in the business to the following types of risks: credit and related risks, liquidity risk, market risk, operational risk, investment risk, concentration risk, exposure and country risk, as well as all other risks that may arise in the ordinary course of business member of the Group.

4. RISK MANAGEMENT (continued)

4.1. Credit risk

Credit risk is the risk of the possibility of adverse effects on the Group's financial result and capital due to non-performance of the debtor's obligations towards members of the Group.

Members of the Group have defined criteria for granting loans, changing conditions, extending the deadline and restructuring the claims, which are prescribed by procedures and methodologies for placement approval and risk management. Loan approval is done depending on the target market, the characteristics of the borrower, and the purpose of the loan.

Prior to the approval of placements, the Group members assess the creditworthiness of the borrower as the primary source of repayment of placements based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and member bodies of the Group, in accordance with the defined decision system Decision on placement approval.

When making decisions, the principle of dual control of the so-called. A "four eyes principle", which ensures that there is always a proposed party and a party that approves a particular placement.

In accordance with the scope, type and complexity of the operations it performs, the Group has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The organizational model of the Group's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system.

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

The basic principles of credit risk management are:

• Credit risk management at the level of individual placements and at the level of the Group's entire portfolio;
• Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
• Ranking of placements according to their risk;
• Performance in accordance with good practices for approving loans;
• Providing adequate controls for credit risk management.

With a view to managing credit risk, the Group's members strive to deal with clients with good creditworthiness and obtain appropriate payment security instruments. Members of the Group assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

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

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement.

In order to adequately and efficiently manage the risks they are exposed to in their operations, the parent Bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Credit risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile, or maintaining an acceptable level of quality of the Group's loan portfolio.

The basic techniques of credit risk mitigation are:

• Exposure Limits - concentration risk,
• Diversification of investments,
• Security instruments.

Exposure debits based on a single borrower are based on an assessment of the borrower's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. Members of the Group continuously control the movement of credit risk within a defined risk profile. In the event of exceeding the internal limits, the members of the Group shall submit an explanation with the proposal of the measures and an action plan, and the parent bank shall report to the Executive Board on that excess. Members of the Group are obliged to report to the parent Bank in the event of occurrence of extraordinary conditions in the business that may arise due to unfavourable trends in local markets, political and economic crises, and the like.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Group), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

Continuous control and monitoring of exposure risk at the Group's portfolio level, within the regulatory limits, is performed by the parent Bank. In case of exceeding the limit, the parent Bank determines the causes, informs and proposes measures for protection against the risk of exposure to the Executive Board of the parent Bank.

The diversification of investments at the Group level is aimed at mitigating credit risk by reducing portfolio concentration in individual asset segments.

Monitoring the quality of placements at the individual borrower level is primarily based on providing up-to-date information on the financial condition and creditworthiness of the borrower and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client groups of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets. The Group members also provide continuous monitoring and verification of the adequacy of the risk ranking process in accordance with the degree of profitability.
Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfillment of obligations in dealing with clients, the Group members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of claims, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the claims in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

In accordance with local regulations, the Parent Bank and the Budva member in 2017 made a write-off of all impaired receivables by transfer from balance sheet to off-balance sheet records, resulting in a reduction in gross loans and allowances in the balance sheet, and consequently a decrease indicators of NPL. A member of Banja Luka made a write-off only for the purpose of creating a consolidated report. A group, besides credit exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Group members use the same control processes and procedures that are used for credit risk.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system:

• Members of the Group report to the parent Bank on a monthly basis;
• The parent bank reports on a consolidated basis, semi-annually and annually.

Identification of problematic and restructured receivables

Members of the Group monitor the quality of the portfolio based on identifying and analyzing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Watch List and NPL clients (clients with problematic receivables).

Restructured non-problematic clients are classified as potentially risky clients, while restructured problematic are classified as troubled clients.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementing measures for prevention of risky placements, ie mitigation and reduction of credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard Clients, and if further credit risk is identified, clients turn to the category of clients with problematic receivables.

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

Restructuring of receivables is the approval, due to the financial difficulties of the debtor, the concessions in connection with the repayment of individual receivables that would not be approved by the debtor to be in these difficulties, regardless of whether there are due liabilities, whether the claim is impaired and whether it was incurred non-settlement status. Restructuring is carried out in one of the following ways: by changing the conditions under which the claim was incurred, especially if the repayment terms subsequently agreed upon are more favorable than the initially agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. . In addition, the category of restructured receivables also includes claims in which:

• changes in the contractual terms of repayment of problematic claims or which, in the absence of the above mentioned changes, would be classified as category of problematic, receivables,
• a change in the contractual terms of the repayment of receivables, resulting in total or partial write-off in a material amount,
• Members of the Group have activated the contractual restructuring clauses under which the terms of repayment change due to the occurrence of certain events (embedded clauses) against the debtor from which the claim has already been classified into a group of problematic claims or would have been so classified as not being activated and those clauses,
• If the debtor was simultaneously granted a new claim (or shortly before or after this approval), he made a payment on the basis of another claim of the Group (or another legal entity under which the claim was transferred to that debtor), which has been classified or is fulfilled the conditions to be classified in a group of problematic ones or, in the absence of a new claim, would be classified in that group, that is, fulfill those conditions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of problematic and restructured receivables (continued)

Members of the Group regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring the measures taken, ie realization of them, such as, for example, the settlement of matured liabilities is done on a daily basis. Semi-annual monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of collateral and the monitoring of overall business are the key points of the mentioned monitoring.

Restructured receivables classified in the group of problematic claims of a Group member after one year from the date of its restructuring are classified into a group of receivables that are not considered problematic if the following conditions are met:

• the amount of impairment for restructured receivables has not been determined and the status of defaults has not occurred;
• in the past 12 months, payments have been made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
• based on the analysis of the financial condition, ie the creditworthiness of the borrower, it was estimated that the borrower will be able to settle the liabilities in full in accordance with the changed terms of repayment.

Risk of asset quality change

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of credit.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

Low level of risk involves dealing with clients with good creditworthiness and is acceptable for the Group (rating categories 1 and 2), increased risk represents business with clients who have certain business problems and can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3) and a high level of risk indicates clients with negative business results and poor credit history (risk categories 4 and 5). The Group improved its internal rating system in 2017, with risk category 4 divided into three sub-categories: 4 - Non-risk clients (RE), 4D risk clients (NRE) with delay of up to 90 days and 4DD risky clients NPE) with a delay of 91 to 180 days.

The Group is protected against the risk of asset quality changes through the continuous monitoring of client's operations, identification of changes that may result from deterioration of the debtor's balance, delay in repayment or changes in the environment, and the provision of appropriate collateral.

Risk of asset value change

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions is made only when there is a valid basis, i.e. when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.
The main elements in assessing the impairment of placements are the following: exceeding the deadline for payment of principal or interest, difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of the expected future cash flows from client operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets.

Members of the Group assess the impairment of receivables on a group and on a single basis.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual assessment

Members of the Group assess the value adjustment for each individually significant placement with the status of default (default risk, sub-category risk 4D, 4DD and category 5 according to the internal rating system) and take into account the financial position of the borrower, the sustainability of the business plan, its ability to improve its performance in the event of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collateral and the certainty of fulfilling the client's obligations towards the members of the Group, a new assessment of the impairment of the placements is made.

The threshold of material significance of a member of the Group is determined on the basis of an analysis of the value structure of the portfolio by type of clients and products.

An allowance for impairment on an individual basis is calculated if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

•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 a member of the Group, due to the financial difficulties of the borrower, substantially changes the conditions for repayment of claims in relation to those initially contracted;
• The debtor can't 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, bankruptcy or some other type of financial reorganization of the borrower) and the like.

Evidence can be documented and analyzed in the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of customer collateral, reports of forced collection and blocking days, reports on arrears and other information to which the group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on placements, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, then the amount of impairment is estimated by discounting future cash flows from operations. The calculation of the expected future cash flows also includes funds from collateral realization (secondary sources), if it is estimated that there is no objective evidence that the loan can be satisfied from the expected future flows from the regular business and that it will be realistically secured from the collateral.

Group assessment

Value adjustments are assessed in a group by all placements where no objective evidence of impairment has been identified and which are not individually significant with the default status and for placements 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 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.

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.

By 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)

4.1. Credit risk (continued)

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

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is made when it is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability. The determination of the probable loss of a member of the Group is also performed for unused commitments, for which they have not unconditionally and without prior notice announced the possibility of canceling the contractual obligation. When calculating provisions based on unused commitments, a conversion factor (CCF) is used, which adjusts the carrying amount of unused commitments.

When assessing provisions for potential losses on off-balance sheet items, assets from collateral realization are recognized, if it is entirely certain that the outflow of assets on the basis of contingent liabilities will be settled out of collateral.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Group members use, in addition to regular monitoring of clients' operations, is to provide security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment.

As standard security instruments, the Group members provide contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, they contract:

- For commercial loans - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For household loans - mortgages on real estate, deposits, guarantees of a solid debt, insurance of the National Corporation for securing housing loans at the parent Bank, and others.

When assessing real estate or mortgaged property, members of the Group provide a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Group, and the policies are vinculated for the benefit of the Group.

In order to protect against changes in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Group protects against potential losses due to the inability to collect collateral from collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. The haircut estimates the estimated market value of each security instrument down to the expected value that will be charged by its realization in the future, taking into account the volatility of the market value, the possibility of realization and cash outflows on the basis of activation and sales costs (court fees, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the Group pay attention to the regular valuation of collaterals. For non-risk placements (PE), mortgages on residential and business properties are estimated at least once in three years by an authorized appraiser. For risky placements (NPEs), mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of immovable property means checking the value of real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Group (realized sales, supply and demand) by the regions specified in the collateral catalog, using the statistical model, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

For all business real estate, the Group conducts a check of value at least once a year, and for housing and other real estate at least once in three years.

The value of the collateral and the trend of movement is monitored and updated by the members of the Group in order to minimize the potential risk of unrealistic estimation, and if necessary, additional collateral may be required in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4.1.1. Maximum Credit Risk Exposure

The total exposure to credit risk as at 31 December 2017 and 2016 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2017		31.12.2016	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**430,849,698**	**400,108,317**	**472,812,097**	**428,827,608**
Cash and balances with the central bank	56,076,748	56,076,748	61,919,102	61,919,102
Loans and advances to banks and other financial institutions	30,436,134	30,233,555	43,528,675	43,216,681
Loans and receivables from customers	193,015,753	174,242,139	198,491,610	166,401,008
Financial assets	121,522,584	121,522,580	140,590,950	140,425,071
Other assets	10,722,146	7,480,376	10,957,501	7,255,156
Assets	19,076,333	10,552,918	17,324,259	9,610,590
II. Off-balance sheet items	**37,158,598**	**36,988,580**	**33,930,412**	**33,876,991**
Payable guarantees	4,017,215	3,966,720	4,336,212	4,277,043
Performance guarantees	4,807,375	4,766,095	6,950,946	6,920,093
Irrevocable liabilities	28,036,262	27,982,000	22,050,789	22,371,693
Other	297,546	273,565	592,465	308,162
Total (I+II)	**468,008,296**	**437,096,897**	**506,742,509**	**462,704,599**

The largest credit risk for the Group arises from the realized loan arrangements, but the Group is exposed to the risk on the basis of off-balance sheet positions arising from the potential and assumed liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations **In thousands of RSD**

31.12.2017	Nonproblematic receivables	Non-performing receivables	Total	Impairment of Nonproblematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	39,355,533	1,735,814	41,091,347	96,490	594,165	690,629	40,400,692
Cash Loans	26,216,812	350,588	26,567,400	216,115	262,960	479,075	26,088,326
Agricultural Loans	7,228,382	206,502	7,434,885	62,967	100,167	163,133	7,271,751
Other Loans	5,780,381	395,984	6,176,365	81,840	376,724	458,564	5,717,801
Micro Business	9,406,132	1,105,531	10,511,663	134,612	476,179	610,790	9,900,872
Total Retail	**87,987,240**	**3,794,419**	**91,781,660**	**592,023**	**1,810,194**	**2,402,217**	**89,379,443**
Large corporate clients	38,495,577	16,958,551	55,454,128	333,797	11,881,648	12,215,445	43,238,683
Middle corporate clients	12,056,414	2,090,406	14,146,820	82,748	1,389,311	1,472,059	12,674,761
Small corporate clients	5,873,229	1,781,079	7,654,308	79,221	910,951	990,172	6,664,136
State owned clients	10,861,724	997,190	11,858,914	89,843	166,416	256,259	11,602,655
Other	10,682,335	1,437,589	12,119,925	308	1,437,155	1,437,463	10,682,462
Total Corporate	**77,969,279**	**23,264,815**	**101,234,094**	**585,916**	**15,785,481**	**16,371,397**	**84,862,696**
Total	**165,956,519**	**27,059,234**	**193,015,753**	**1,177,939**	**17,595,675**	**18,773,614**	**174,242,139**
Due from banks	**30,233,576**	**202,558**	**30,436,134**	**21**	**202,558**	**202,579**	**30,233,555**

Note: According to the internal segmentation, the household sector includes natural persons, farmers and microbusiness (entrepreneurs and micro clients).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

In thousands of RSD

31.12.2016	Nonproblematic receivables	Non-performing receivables	Total	Impairment of Nonproblematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	40,207,271	2,317,300	42,524,571	88,859	1,131,996	1,220,854	41,303,717
Cash Loans	20,674,119	1,201,269	21,875,388	171,541	1,107,438	1,278,979	20,596,408
Agricultural Loans	6,194,484	482,267	6,676,750	50,109	397,292	447,401	6,229,349
Other Loans	5,387,175	745,751	6,132,926	86,340	732,306	818,646	5,314,280
Micro Business	8,064,191	2,180,334	10,244,525	133,151	1,464,495	1,597,646	8,646,879
Total Retail	**80,527,240**	**6,926,920**	**87,454,160**	**530,000**	**4,833,527**	**5,363,527**	**82,090,633**
Large corporate clients	34,812,545	24,078,785	58,891,330	386,634	19,545,036	19,931,670	38,959,660
Middle corporate clients	18,508,866	3,228,194	21,737,061	239,248	2,297,711	2,536,959	19,200,101
Small corporate clients	8,019,382	2,830,715	10,850,097	135,783	1,858,921	1,994,704	8,855,393
State owned clients	9,566,211	1,914,002	11,480,213	64,686	562,870	627,556	10,852,657
Other	6,453,124	1,625,625	8,078,749	10,590	1,625,595	1,636,185	6,442,564
Total Corporate	**77,360,128**	**33,677,322**	**111,037,450**	**836,940**	**25,890,134**	**26,727,074**	**84,310,376**
Total	**157,887,368**	**40,604,242**	**198,491,610**	**1,366,940**	**30,723,661**	**32,090,602**	**166,401,008**
Due from banks	**43,218,800**	**309,875**	**43,528,675**	**2,120**	**309,874**	**311,994**	**43,216,681**

Note: According to the internal segmentation, the household sector includes natural persons, farmers and microbusiness (entrepreneurs and micro clients).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in value adjustments of receivables in the Balance Sheet

In thousands of RSD

	31.12.2016	Increase in impairment	Reversal of impairment	Other changes*	31.12.2017
Total retail	5,363,527	2,409,982	(3,168,627)	(2,202,666)	2,402,217
Total corporate	26,727,075	9,552,922	(9,951,081)	(9,957,518)	16,371,398
Total	**32,090,602**	**11,962,905**	**(13,119,707)**	**(12,160,185)**	**18,773,614**
Receivables from banks	**311,994**	**33**	**(62,697)**	**(46,751)**	**202,579**

* Other changes relate to the carry-over of entirely impaired receivables from balance sheets to off-balance sheet records, exchange rate differences and other changes.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Problematic loans and receivables

Problem loans and receivables are those loans and receivables for which the Group has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default-default (risk sub-category 4D and 4DD according to the internal rating system and risk categories 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset 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 write-off of entirely impaired receivables from transfer from balance sheet to off-balance sheet records, as follows: with the parent Bank and the member from Budva in accordance with local regulations, and with the member from Banja Luka for the needs preparation of a consolidated report. In addition, the reduction in value adjustments also influenced the collection of risky placements, higher than planned.

Non-problematic loans and receivables

For non-problematic receivables (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.

The collateral assessment on a group basis is based on the probability of the occurrence of the status of non-settlement of the debtor's (PD) obligations calculated on the basis of migration into the status of default, by type of client or product. By 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 CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Undeclared claims on arrears days - Non-payment claims

In thousands of 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	38,420,681	559,412	153,873	221,566	-	**39,355,533**
Cash Loans	24,291,275	1,702,682	166,024	56,831	-	**26,216,812**
Agricultural Loans	6,953,492	182,300	71,846	20,745	-	**7,228,382**
Other Loans	5,410,478	312,882	45,446	11,575	-	**5,780,381**
Micro Businesses	8,080,813	1,226,765	77,073	21,481	-	**9,406,132**
Retail clients	**83,156,739**	**3,984,040**	**514,263**	**332,198**	-	**87,987,240**
Large corporate clients	38,038,591	148,686	308,300	-	-	**38,495,577**
Middle corporate clients	11,005,501	946,232	94,118	10,563	-	**12,056,414**
Small corporate clients	5,473,967	310,776	56,863	31,623	-	**5,873,229**
State owned clients	10,743,288	118,436	-	-	-	**10,861,724**
Other	10,548,614	133,614	107	-	-	**10,682,335**
Corporate clients	**75,809,960**	**1,657,745**	**459,388**	**42,186**	-	**77,969,279**
Total	**158,966,699**	**5,641,785**	**973,651**	**374,384**	-	**165,956,519**
Out of which: restructured	2,062,044	410,268	178,344	4,755	-	**2,655,411**
Due from banks	**26,210,359**	**4,023,218**	**-**	**-**	-	**30,233,576**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Undeclared claims on days of arrears

In thousands of 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	39,141,616	616,899	160,811	287,945	-	**40,207,271**
Cash Loans	19,116,857	1,352,724	148,406	56,132	-	**20,674,119**
Agricultural Loans	5,919,094	206,274	52,417	16,699	-	**6,194,484**
Other Loans	5,053,139	290,789	29,636	13,612	-	**5,387,175**
Micro Businesses	6,952,990	975,960	61,810	73,431	-	**8,064,191**
Retail clients	**76,183,695**	**3,442,645**	**453,080**	**447,819**	-	**80,527,240**
Large corporate clients	34,521,502	291,043	-	-	-	**34,812,545**
Middle corporate clients	16,986,649	1,482,182	26,237	13,798	-	**18,508,866**
Small corporate clients	7,075,889	874,961	21,321	47,211	-	**8,019,382**
State owned clients	9,380,610	185,600	-	-	-	**9,566,211**
Other	6,255,752	196,111	1,262	-	-	**6,453,124**
Corporate clients	**74,915,706**	**2,807,146**	**172,708**	**93,966**	-	**77,360,128**
Total	**151,099,401**	**6,249,791**	**625,788**	**541,785**	-	**157,887,368**
Out of which: restructured	2,684,851	599,992	34,572	41,979	-	**3,361,395**
Due from banks	**43,218,800**	**-**	**-**	**-**	-	**43,218,800**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. **RISK MANAGEMENT (continued)**

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Impaired debts due on arrears days - Problematic claims

In thousands of 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	213,931	65,588	18,498	48,523	1,389,275	**1,735,814**
Cash Loans	53,274	19,848	10,750	18,205	248,512	**350,588**
Agricultural Loans	20,079	5,777	9,331	8,440	162,875	**206,502**
Other Loans	14,691	2,471	832	219	377,771	**395,984**
Micro Businesses	70,524	15,459	14,779	56,066	948,704	**1,105,531**
Retail clients	**372,497**	**109,143**	**54,190**	**131,452**	**3,127,137**	**3,794,419**
Large corporate clients	2,262,581	-	-	-	14,695,970	**16,958,551**
Middle corporate clients	93,394	22,138	-	58,566	1,916,308	**2,090,406**
Small corporate clients	88,111	373,012	36,677	2,860	1,280,419	**1,781,079**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,767	-	-	-	822	**1,437,589**
Corporate clients	**4,621,904**	**418,172**	**36,677**	**61,426**	**18,126,636**	**23,264,815**
Total	**4,994,401**	**527,315**	**90,867**	**192,878**	**21,253,773**	**27,059,234**
Out of which: restructured	2,562,976	78,371	54,310	99,769	16,484,893	**19,280,319**
Due from banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Impaired debts due on arrears days - Problematic claims

In thousands of 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	204,127	54,583	27,781	50,836	1,979,972	**2,317,300**
Cash Loans	48,747	17,883	11,304	14,898	1,108,438	**1,201,269**
Agricultural Loans	9,748	3,642	3,293	2,457	463,126	**482,267**
Other Loans	12,627	563	155	802	731,604	**745,751**
Micro Businesses	16,905	5,158	19,453	14,500	2,124,318	**2,180,334**
Retail clients	**292,153**	**81,830**	**61,985**	**83,493**	**6,407,459**	**6,926,920**
Large corporate clients	2,521,936	3,466,420	49,512	-	18,040,917	**24,078,785**
Middle corporate clients	290,578	66,476	-	13,254	2,857,886	**3,228,194**
Small corporate clients	469,667	20,532	-	26,523	2,313,994	**2,830,715**
State owned clients	1,267,471	48,709	-	-	597,822	**1,914,002**
Other	1,536,823	-	-	-	88,801	**1,625,625**
Corporate clients	**6,086,475**	**3,602,137**	**49,512**	**39,777**	**23,899,420**	**33,677,322**
Total	**6,378,628**	**3,683,967**	**111,498**	**123,270**	**30,306,879**	**40,604,242**
Out of which: restructured	2,848,138	3,579,359	60,187	7,057	20,922,319	**27,417,059**
Due from banks	**309,874**	-	-	-	-	**309,874**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic claims

In thousands of RSD

31.12.2017	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**91,781,660**	**2,402,217**	**3,794,419**	**1,011,772**	**1,810,194**	**4,13%**	**3,372,392**
Housing Loans	41,091,347	690,655	1,735,814	485,979	594,165	4,22%	1,740,307
Cash Loans	26,567,400	479,074	350,588	45,244	262,960	1,32%	242,993
Agricultural Loans	7,434,885	163,133	206,502	19,626	100,167	2,78%	196,094
Other	6,176,365	458,564	395,984	-	376,724	6,41%	11,857
Micro Businesses	10,511,663	610,790	1,105,531	460,924	476,179	10,52%	1,181,140
Corporate	**101,234,094**	**16,371,397**	**23,264,815**	**18,268,546**	**15,785,481**	**22,98%**	**21,511,491**
Agriculture	6,221,355	161,647	253,050	28,243	113,994	4,07%	252,908
Manufacturing Industry	23,673,580	5,963,135	9,161,447	8,191,755	5,735,338	38,70%	6,607,183
Electric Energy	1,135,657	28,197	67,005	-	174	5,90%	67,005
Construction	6,474,022	1,016,800	1,083,331	959,938	1,007,179	16,73%	1,297,761
Wholesale and Retail	24,616,833	2,014,256	3,960,147	3,102,743	1,887,183	16,09%	4,048,023
Service Activities	14,773,783	1,222,929	1,438,775	1,411,506	1,089,580	9,74%	1,465,235
Real Estate Activities	1,582,823	693,244	1,345,149	960,907	691,123	84,98%	1,370,156
Other	22,756,041	5,271,189	5,955,911	3,613,454	5,260,909	26,17%	6,403,219
Total	**193,015,753**	**18,773,614**	**27,059,234**	**19,280,319**	**17,595,675**	**14,02%**	**24,883,882**
Due from banks	**30,436,134**	**202,579**	**202,558**	**-**	**202,558**	**0,67%**	**407,543**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic claims (continued)

In thousands of RSD

31.12.2016	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**87,454,160**	**5,363,527**	**6,926,920**	**1,194,271**	**4,831,972**	**7,92%**	**6,030,269**
Housing Loans	42,524,571	1,220,682	2,317,300	450,074	1,131,862	5,45%	3,399,885
Cash Loans	21,875,388	1,279,151	1,201,269	62,924	1,107,338	5,49%	628,279
Agricultural Loans	6,676,750	447,401	482,267	39,016	397,270	7,22%	476,504
Other	6,132,926	818,646	745,751	489	732,288	12,16%	40,703
Micro Businesses	10,244,525	1,597,646	2,180,334	641,768	1,463,213	21,28%	1,484,897
Corporate	**111,037,450**	**26,727,075**	**33,677,322**	**26,222,788**	**25,891,689**	**30,33%**	**32,669,354**
Agriculture	6,963,406	296,167	355,855	51,981	233,910	5,11%	370,591
Manufacturing Industry	36,548,279	10,372,448	14,377,412	12,820,759	10,109,059	39,34%	10,743,176
Electric Energy	311,333	49,207	-	-	-	0,00%	-
Construction	3,865,325	1,644,715	1,660,952	1,308,284	1,513,279	42,97%	1,867,323
Wholesale and Retail	30,609,582	4,712,214	5,726,507	4,289,886	4,525,657	18,71%	6,336,296
Service Activities	12,166,402	2,577,391	2,946,538	2,876,445	2,457,942	24,22%	3,791,587
Real Estate Activities	1,837,179	704,562	1,421,259	954,401	696,020	77,36%	1,458,900
Other	18,735,945	6,370,370	7,188,799	3,921,032	6,355,820	38,37%	8,101,509
Total	**198,491,610**	**32,090,602**	**40,604,242**	**27,417,059**	**30,723,661**	**20,46%**	**38,699,652**
Due from banks	**43,528,675**	**311,994**	**309,874**	**-**	**309,874**	**0,71%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic claims (continued)

Changes in non-performing receivables

In thousands of RSD

	Gross 31.12.2016	New non-performing receivables	Decrease in non-performing receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2017	Net 31.12.2017
Housing Loans	2,317,166	352,295	(766,761)	(128,171)	(38,715)	1,735,814	1,141,650
Cash Loans	1,201,169	183,344	(1,008,469)	(10,025)	(15,431)	350,588	87,628
Agricultural Loans	482,245	123,424	(386,295)	(8,147)	(4,725)	206,502	106,335
Other Loans	745,733	98,132	(441,143)	(2,938)	(3,800)	395,984	19,260
Micro Businesses	2,179,052	146,615	(1,138,086)	(65,259)	(16,791)	1,105,531	629,352
Retail	**6,925,365**	**903,810**	**(3,740,754)**	**(214,541)**	**(79,460)**	**3,794,419**	**1,984,225**
Large corporate clients	24,078,794	1,467,414	(8,166,593)	(813,349)	392,285	16,958,551	5,077,548
Middle corporate clients	3,228,194	37,985	(1,178,665)	(89,972)	92,864	2,090,406	741,039
Small corporate clients	2,832,261	183,291	(1,097,812)	(77,889)	(58,773)	1,781,079	829,539
State owned clients	1,914,002	68,060	(525,411)	(64,543)	(394,919)	997,190	830,774
Other	1,625,625	412	(88,401)	(51,933)	(48,112)	1,437,589	434
Corporate Clients	**33,678,877**	**1,757,162**	**(11,056,882)**	**(1,097,685)**	**(16,656)**	**23,264,815**	**7,479,334**
Total	**40,604,242**	**2,660,972**	**(14,797,636)**	**(1,312,226)**	**(96,116)**	**27,059,234**	**9,463,559**
Due from banks	**309,874**	**-**	**-**	**-**	**(107,316)**	**202,558**	**-**

* Other changes relate to a partial increase / decrease in the amount of receivables within one lot during the year.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables

In thousands of 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	39,084,856	257,801	12,876	39,355,533	39,001,059	39,585,087	616,664	5,520	40,207,271	39,763,653
Cash Loans	26,144,252	67,874	4,687	26,216,812	11,970,041	20,592,587	79,205	2,326	20,674,119	15,963,266
Agricultural Loans	7,200,380	27,708	294	7,228,382	6,065,831	6,166,607	25,291	2,586	6,194,483	5,864,902
Other Loans	5,756,521	19,084	4,776	5,780,381	156,647	5,341,209	41,914	4,052	5,387,175	146,036
Micro Businesses	8,799,696	446,581	159,855	9,406,132	9,523,078	7,341,879	418,421	303,890	8,064,191	8,177,476
Retail	**86,985,706**	**819,047**	**182,487**	**87,987,240**	**66,716,656**	**79,027,369**	**1,181,496**	**318,375**	**80,527,240**	**69,915,334**
Large corporate clients	37,281,395	1,214,182	-	38,495,577	36,547,962	30,707,102	4,105,443	-	34,812,545	32,863,162
Middle corporate clients	11,844,621	210,314	1,478	12,056,414	11,429,111	18,149,288	359,573	4	18,508,866	17,774,599
Small corporate clients	5,663,004	210,223	2	5,873,229	5,812,991	7,394,235	595,028	30,119	8,019,382	7,954,830
State owned clients	9,042,905	1,768,042	50,777	10,861,724	6,158,448	7,757,111	500,825	1,308,275	9,566,211	5,311,410
Other	5,580,295	5,101,481	560	10,682,335	4,513,126	940,332	5,473,897	38,896	6,453,124	4,382,749
Corporate Clients	**69,412,221**	**8,504,241**	**52,817**	**77,969,279**	**64,461,639**	**64,948,069**	**11,034,765**	**1,377,294**	**77,360,128**	**68,286,750**
Total	**156,397,927**	**9,323,288**	**235,304**	**165,956,519**	**131,178,295**	**143,975,438**	**12,216,261**	**1,695,669**	**157,887,368**	**138,202,084**
Due from banks	**30,233,464**	**-**	**112**	**30,233,576**	**-**	**43,218,801**	**-**	**-**	**43,218,800**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

31.12.2017	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**91,781,660**	**2,402,217**	**1,839,065**	**1,011,772**	**377,743**	**2,00%**	**1,569,799**
Housing Loans	41,091,347	690,655	985,645	485,979	186,128	2,40%	983,744
Cash Loans	26,567,400	479,074	256,425	45,244	24,538	0,97%	55,818
Agricultural Loans	7,434,885	163,133	19,711	19,626	5,399	0,27%	18,746
Other	6,176,365	458,564	5,815	-	11	0,09%	6,793
Micro Businesses	10,511,663	610,790	571,469	460,924	161,666	5,44%	504,697
Corporate Clients	**101,234,094**	**16,371,397**	**20,096,664**	**18,268,546**	**12,935,446**	**19,85%**	**19,483,092**
Agriculture	6,221,355	161,647	149,589	28,243	16,594	2,40%	149,589
Manufacturing Industry	23,673,580	5,963,135	8,970,181	8,191,755	5,660,335	37,89%	8,591,732
Electric Energy	1,135,657	28,197	-	-	-	0,00%	-
Construction	6,474,022	1,016,800	988,884	959,938	911,027	15,27%	980,283
Wholesale and Retail	24,616,833	2,014,256	3,396,861	3,102,743	1,319,589	13,80%	3,170,340
Service Activities	14,773,783	1,222,929	1,734,740	1,411,506	1,107,568	11,74%	1,734,740
Real Estate Activities	1,582,823	693,244	960,907	960,907	673,604	60,71%	960,907
Other	22,756,041	5,271,189	3,895,502	3,613,454	3,246,730	17,12%	3,895,502
Total	**193,015,753**	**18,773,614**	**21,935,730**	**19,280,319**	**13,313,189**	**11,36%**	**21,052,891**
Due from banks	**30,436,134**	**202,579**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2016

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**87,454,160**	**5,363,527**	**1,910,287**	**1,194,271**	**575,309**	**2,18%**	**1,959,377**
Housing Loans	42,524,571	1,220,682	948,830	450,074	193,179	2,23%	947,429
Cash Loans	21,875,388	1,279,151	134,317	62,924	44,877	0,61%	74,651
Agricultural Loans	6,676,750	447,401	39,965	39,016	22,814	0,60%	39,816
Other	6,132,926	818,646	1,089	489	489	0,02%	130
Micro Businesses	10,244,525	1,597,646	786,086	641,768	313,950	7,67%	897,351
Corporate Clients	**111,037,450**	**26,727,075**	**28,868,167**	**26,222,788**	**21,018,784**	**26,00%**	**29,131,106**
Agriculture	6,963,406	296,167	233,450	51,981	10,585	3,35%	62,011
Manufacturing Industry	36,548,279	10,372,448	13,022,853	12,820,759	9,636,129	35,63%	13,166,903
Electric Energy	311,333	49,207	-	-	-	0,00%	84,030
Construction	3,865,325	1,644,715	1,308,284	1,308,284	1,224,520	33,85%	1,308,284
Wholesale and Retail	30,609,582	4,712,214	6,064,460	4,289,886	3,451,874	19,81%	6,278,825
Service Activities	12,166,402	2,577,391	2,981,533	2,876,445	2,427,775	24,51%	2,962,137
Real Estate Activities	1,837,179	704,562	967,176	954,401	644,009	52,64%	979,951
Other	18,735,945	6,370,370	4,290,412	3,921,032	3,623,891	22,90%	4,288,964
Total	**198,491,610**	**32,090,602**	**30,778,454**	**27,417,059**	**21,594,093**	**15,51%**	**31,090,483**
Due from banks	**43,528,675**	**311,994**	**-**	**-**	**-**	**0,00%**	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of 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	948,830	189,758	(35,645)	(78,596)	(38,702)	985,645	799,516
Cash Loans	134,317	160,700	(24,111)	(10,444)	(4,037)	256,425	231,887
Agricultural Loans	39,965	7,677	(26,319)	(1,222)	(390)	19,711	14,312
Other Loans	1,089	1,548	(56)	3,234	-	5,815	5,804
Micro Businesses	786,086	6,773	(203,290)	(28,705)	10,604	571,469	409,803
Retail	**1,910,287**	**366,457**	**(289,422)**	**(115,733)**	**(32,524)**	**1,839,065**	**1,461,323**
Large corporate clients	25,131,407	1,023,848	(8,040,033)	(840,411)	241,630	17,516,440	5,920,747
Middle corporate clients	1,729,109	152,968	(547,348)	(60,089)	70,342	1,344,983	515,540
Small corporate clients	1,155,871	56,738	(196,747)	(35,826)	(27,897)	952,139	441,836
State owned clients	482,401	1,055	(482,401)	(19,533)	19,533	1,055	1,051
Other	369,380	-	(75,429)	(11,903)	-	282,048	282,045
Corporate Clients	**28,868,167**	**1,234,609**	**(9,341,958)**	**(967,762)**	**303,609**	**20,096,664**	**7,161,218**
Total	**30,778,454**	**1,601,066**	**(9,631,380)**	**(1,083,494)**	**271,085**	**21,935,730**	**8,622,541**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other changes relate to a partial increase / decrease in the amount of restructured receivables within one lot during the year.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

Members of the Group implement different restructuring measures depending on the needs of clients, respecting the Group's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Group members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,

- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,

- Capitalization of arrears, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,

- Refinancing of receivables - in justified cases it is possible to refinance claims from other creditors in order to improve the position of the Group (collateral or financial approval of favorable repayment terms),

- partial write-offs - in the past period, the Group members did not carry out partial write-offs in the course of restructuring, but in the following period, they will carefully consider the justification and these measures in the restructuring process, if established, in order to reduce the debtor's liabilities to a realistic level that can be repaid from the cash flow, whereby the comparative and collateral position of the Group will be considered with the projection of the possibility of collection, in order for the Group members to collect their claims in the maximum possible amount,

- The conversion of debt into equity - has not been carried out in the past period, and in the forthcoming period, an individual assessment of the justification of the realization of this measure will be carried out if it is the only possibility for the implementation of the restructuring, ie the collection.

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio.

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

	Non problematic receivables					Problematic receivables				
31.12.2017	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**
Retail	**80,443,626**	**4,025,430**	**3,518,184**	**-**	**-**	**3,122,801**	**343,401**	**328,217**	**-**	**-**
Housing Loans	35,946,088	1,816,173	1,593,272	-	-	1,532,194	167,780	35,840	-	-
Cash Loans	24,286,208	1,222,315	708,289	-	-	302,978	38,768	8,841	-	-
Agricultural Loans	7,153,549	6,728	68,106	-	-	205,882	64	556	-	-
Other	5,353,083	54,526	372,772	-	-	383,880	3,615	8,489	-	-
Micro Businesses	7,704,698	925,689	775,745	-	-	697,866	133,174	274,491	-	-
Corporate Clients	**58,769,024**	**7,041,714**	**12,158,541**	**-**	**-**	**22,791,567**	**242,462**	**230,786**	**-**	**-**
Agriculture	5,813,795	121,360	33,150	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	105,722	1,171,056	-	-	9,145,453	15,994	-	-	-
Electric Energy	82,030	3	986,619	-	-	67,005	-	-	-	-
Construction	4,747,909	210,783	431,998	-	-	934,013	149,319	-	-	-
Wholesale and Retail	18,359,633	1,044,963	1,252,091	-	-	3,652,235	77,126	230,786	-	-
Service Activities	11,743,285	881,824	709,899	-	-	1,438,755	19	-	-	-
Real Estate Activities	167,366	54,032	16,276	-	-	1,345,149	-	-	-	-
Other	4,619,651	4,623,026	7,557,453	-	-	5,955,907	4	-	-	-
Total	**139,212,649**	**11,067,144**	**15,676,726**	**-**	**-**	**25,914,368**	**585,863**	**559,003**	**-**	**-**
Due from banks	**7,883,218**	**4,122**	**604,369**	**5,234,504**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In thousands of RSD

	Non problematic receivables					Problematic receivables				
31.12.2016	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**
Retail	**74,137,624**	**3,270,768**	**3,118,847**	**-**	**-**	**5,167,534**	**884,462**	**874,924**	**-**	**-**
Housing Loans	37,271,767	1,543,567	1,391,937	-	-	1,992,031	278,496	46,773	-	-
Cash Loans	18,968,032	1,017,024	689,063	-	-	924,303	123,650	153,316	-	-
Agricultural Loans	6,081,950	9,903	102,631	-	-	467,403	0	14,863	-	-
Other	5,239,787	52,564	94,824	-	-	662,682	19,572	63,497	-	-
Micro Businesses	6,576,089	647,709	840,393	-	-	1,121,115	462,744	596,475	-	-
Corporate Clients	**64,243,239**	**6,881,172**	**6,235,717**	**-**	**-**	**32,412,891**	**617,583**	**579,363**	**-**	**67,485**
Agriculture	6,416,768	181,481	9,303	-	-	345,824	0	10,031	-	-
Manufacturing Industry	20,620,278	153,502	1,397,086	-	-	14,174,435	117,266	85,711	-	-
Electric Energy	83,227	5,593	222,513	-	-	0	0	0	-	-
Construction	1,786,210	278,123	140,040	-	-	1,351,493	309,459	0	-	-
Wholesale and Retail	23,274,624	642,396	966,054	-	-	5,149,413	155,333	421,760	-	-
Service Activities	8,098,887	816,056	304,920	-	-	2,884,345	332	61,862	-	-
Real Estate Activities	307,600	61,109	47,211	-	-	1,409,119	12,140	-	-	-
Other	3,655,645	4,742,911	3,148,590	-	-	7,098,261	23,053	-	-	67,485
Total	**138,380,863**	**10,151,940**	**9,354,564**	**-**	**-**	**37,580,425**	**1,502,045**	**1,454,287**	**-**	**67,485**
Due from banks	**11,156,376**	**5,608**	**141,067**	**8,759,324**	**23,156,425**	**-**	**-**	**-**	**-**	**309,874**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Funding

In thousands of RSD

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
Financial Assets:	**121,522,584**	**121,522,580**	**140,590,950**	**140,425,071**
- at fair value through profit and loss, held for trading	5,424,642	5,424,642	247,862	247,862
- initially recognized through profit and loss, at fair value	-	-	-	-
- available for sale	116,097,941	116,097,938	139,889,920	139,808,210
- held to maturity	-	-	453,168	368,999
Total	**121,522,584**	**121,522,580**	**140,590,950**	**140,425,071**

Available-for-sale financial assets are placements for which there is an intention to hold them in an unspecified period of time and which can be sold due to liquidity needs 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, the Republic of Srpska, the Republic of Montenegro, 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 evaluation (mark to model) in the case where the prices do not change regularly for a given financial instrument, nor are significant trading volumes recorded, and the model is based on the discounting of cash flows by the yield curve that respects the market conditions.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

Loans and receivables from customers covered by collateral — **In thousands of RSD**

31.12.2017	Nonproblematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other* Collaterals	Total	Real Estate	Deposits	Guarantees	Other* Collaterals	Total
Housing Loans	37,584,525	26,826	-	1,389,709	**39,001,059**	1,638,134	3,069	-	99,104	**1,740,307**
Cash Loans	459,863	458,565	-	11,051,613	**11,970,041**	19,763	7,157	-	216,073	**242,993**
Agricultural Loans	3,060,954	29,580	31,127	2,944,170	**6,065,831**	145,561	-	12	50,521	**196,094**
Other	32,706	6,202	-	117,740	**156,647**	8,968	4	-	2,884	**11,857**
Micro Businesses	2,124,368	556,769	-	6,841,941	**9,523,078**	690,071	9,368	-	481,701	**1,181,140**
Total Retail	**43,262,416**	**1,077,941**	**31,127**	**22,345,172**	**66,716,656**	**2,502,498**	**19,599**	**12**	**850,283**	**3,372,392**
Large Corporate Clients	16,904,885	321,177	6,161,689	13,160,211	**36,547,962**	14,634,237	-	-	2,301,515	**16,935,752**
Middle Corporate Clients	5,117,639	450,957	-	5,860,515	**11,429,111**	1,808,248	-	-	235,632	**2,043,880**
Small Corporate Clients	1,919,093	346,296	9,538	3,538,064	**5,812,991**	1,608,457	14	-	172,103	**1,780,574**
State	397,383	2,261	709,940	5,048,865	**6,158,448**	9,160	0	669,596	72,511	**751,267**
Other	139,047	-	148,486	4,225,593	**4,513,126**	-	18	-	-	**18**
Corporate Clients	**24,478,048**	**1,120,690**	**7,029,652**	**31,833,248**	**64,461,639**	**18,060,101**	**32**	**669,596**	**2,781,761**	**21,511,491**
Total	67,740,464	2,198,631	7,060,779	54,178,421	131,178,295	20,562,599	19,631	669,608	3,632,044	24,883,882
Of which: restructured	**1,212,404**	**24,096**	**207,719**	**569,879**	**2,014,098**	**17,009,448**	**-**	**-**	**2,029,345**	**19,038,793**
Due from banks	**-**	**114,998**	**-**	**305,960**	**407,543**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to zones on the goods, inventory on claims, inventory on equipment, guarantees.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)
Loans and receivables from customers covered by collateral

In thousands of RSD

31.12.2016	Nonproblematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	38,690,411	26,907	-	1,046,336	**39,763,653**	3,139,761	-	-	110,343	**3,250,104**
Cash Loans	478,237	437,440	-	15,047,589	**15,963,266**	111,608	3,588	-	426,844	**542,040**
Agricultural Loans	3,125,684	11,014	63,906	2,664,298	**5,864,902**	221,035	-	1,364	179,919	**402,319**
Other	7,235	5,530	42	133,229	**146,036**	17,089	-	-	18,528	**35,616**
Micro Businesses	2,466,438	756,786	16,228	4,938,025	**8,177,476**	1,106,698	691	343	377,165	**1,484,897**
Total Retail	**44,768,005**	**1,237,677**	**80,176**	**23,829,476**	**69,915,334**	**4,596,191**	**4,279**	**1,707**	**1,112,799**	**5,714,976**
Large Corporate Clients	20,677,755	362,174	490,772	11,332,461	**32,863,162**	18,425,986	-	1,799,847	3,864,613	**24,090,446**
Middle Corporate Clients	9,167,310	744,515	102,332	7,760,441	**17,774,599**	2,628,709	4,197	44,191	1,120,006	**3,797,103**
Small Corporate Clients	3,417,446	467,025	22,475	4,047,884	**7,954,830**	2,652,166	36,336	-	549,040	**3,237,542**
State	502,478	-	1,233,649	3,575,284	**5,311,410**	9,543	-	1,040,837	467,770	**1,518,151**
Other	208,836	2,492	-	4,171,421	**4,382,749**	14,785	2,492	-	8,864	**26,141**
Corporate Clients	**33,973,825**	**1,576,207**	**1,849,228**	**30,887,490**	**68,286,750**	**23,731,189**	**43,026**	**2,884,876**	**6,010,293**	**32,669,383**
Total	**78,741,830**	**2,813,884**	**1,929,404**	**54,716,966**	**138,202,084**	**28,327,380**	**47,305**	**2,886,583**	**7,123,092**	**38,384,359**
Of which: restructured	3,404,231	5,563	-	216,124	3,625,918	21,454,181	4,407	1,892,942	4,113,035	27,464,565
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to zones on the goods, inventory on claims, inventory on equipment, guarantees.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan To Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	December 31, 2017	December 31, 2016
Less than 50%	28,945,003	31,218,723
50% - 70%	16,739,193	22,389,267
71% - 100%	22,114,046	24,893,963
101% - 150%	9,278,934	9,345,594
More than 150%	17,866,577	25,497,902
Total exposure	**94,943,753**	**113,345,450**
Average LTV	**67,89%**	**65,98%**

4.1.8. Material values acquired by collecting receivables

Security assets taken by Group members in the process of collection of placements are presented in the following review:

In thousands of RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2016	**741,384**	**3,612,206**	**112,973**	**456,997**	**4,923,560**
Acquisition	20,222	75,843	6,209	6,014	108,288
Sale	(8,097)	(697,131)	(18)	-	(705,246)
Transfer to invesment proprety	(11,047)	(6,400)	-	-	(17,447)
Transfer to assets held for sale	(151.359)	(500,352)	(2,196)	(198,620)	(852,528)
Transfer to fixed assets	-	-	-	-	-
Other	(13,932)	(21,644)	(4,068)	(4,110)	(43,754)
31.12.2017	**577,171**	**2,462,522**	**112,900**	**260,281**	**3,412,874**
Impairment Allowances	**216,322**	**1,079,754**	**77,166**	**134,046**	**1,507,288**
Net	**360,849**	**1,382,768**	**35,734**	**126,235**	**1,905,586**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

• diversifies sources of funds, by currency and maturity;
• Form and maintain sufficient level of liquidity reserves;
• manages funds;
• Monitor future cash flows and liquidity on a daily basis;
• Limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
• Defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

• GAP analysis;
• Rational analysis;
• Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

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

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. Starting from 30.06.2017. The Group has aligned its operations with a liquid asset coverage indicator in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio		Indicator of liquid assets coverage	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
As at December 31	4.13	2.88	3.92	2.55	415%	-
Average for the period	4.71	2.97	4.38	2.55		
Maximum for the period	5.29	3.56	4.83	3.12	-	-
Minimum for the period	4.13	1.91	3.92	1.69	-	-

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

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

Compliance with internally defined liquidity limits on the last day:

	Limits	**2017**	**2016**
GAP up to 1 month / Total assets	Max (10%)	1.43%	6.50%
Cumulative GAP up to 3 months / Total assets	Max (20%)	4.66%	9.61%

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

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December 31, 2017

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2017

In thousands of 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	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,200,198	3,844,150	136,513	1,052,694	-	30,233,555
Loans and receivables due from customers	10,870,090	9,074,983	36,092,091	74,507,110	43,697,865	174,242,139
Financial assets (securities)	4,818,794	14,000,125	19,972,101	82,037,900	693,660	121,522,580
Other assets	2,064,500	1,370,393	146,640	215,961	493,178	4,290,672
Total	**99,030,330**	**28,289,651**	**56,347,345**	**157,813,665**	**44,884,703**	**386,365,694**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,648,799	1,113,674	915,645	1,459,658	-	6,137,776
Deposits and other liabilities due to customers	222,453,947	13,741,808	52,687,717	26,464,168	2,230,108	317,577,748
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	5,248,237	91,973	1,636,303	38,286	-	7,014,799
Total	**230,350,983**	**14,947,455**	**55,239,665**	**27,962,112**	**2,230,108**	**330,730,323**
Net liquidity gap As of December 31, 2017	**(131,320,653)**	**13,342,196**	**1,107,680**	**129,851,553**	**42,654,595**	**55,635,371**

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December 31, 2017

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2016

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	61,919,102	-	-	-	-	61,919,102
Loans and receivables due from other banks and other financial institutions	38,699,907	3,416,190	76,258	1,003,021	21,305	43,216,681
Loans and receivables due from customers	10,316,061	10,959,317	40,699,071	64,663,910	39,762,649	166,401,008
Financial assets (securities)	4,860,113	13,506,392	47,165,297	73,000,869	1,892,400	140,425,071
Other assets	2,106,213	-	3,283	1,124,843	-	3,234,339
Total	**117,901,396**	**27,881,899**	**87,943,909**	**139,792,643**	**41,676,354**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,184,279	1,163,266	2,059,354	3,392,393	23,227	9,822,519
Deposits and other liabilities due to customers	229,259,980	17,393,516	68,559,020	27,635,316	2,288,127	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,681,633	-	1,047,493	-	-	5,729,126
Total	**237,125,892**	**18,556,782**	**77,844,257**	**31,027,709**	**2,311,354**	**366,865,994**
Net liquidity gap As of December 31, 2016	**(119,224,496)**	**9,325,117**	**10,099,652**	**108,764,934**	**39,365,000**	**48,330,207**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and sight deposits will be withdrawn within one month.

The Group collects deposits of legal persons and households, who usually have shorter deadlines and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk management by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted Cash Flows of Monetary Assets and Monetary Liabilities as at 31 December 2017

In thousands of 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	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,209,287	3,847,610	151,359	1,058,968	-	30,267,224
Loans and receivables due from customers	11,635,049	10,508,677	41,814,152	90,500,227	57,585,533	212,043,638
Financial assets (securities)	4,680,261	14,026,774	20,038,891	82,519,852	718,340	121,984,118
Other assets	2,533,852	1,370,393	146,639	215,960	493,178	4,760,022
Total	**100,135,197**	**29,753,454**	**62,151,041**	**174,295,007**	**58,797,051**	**425,131,750**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,652,413	1,143,859	959,611	1,557,409	-	6,313,292
Deposits and other liabilities due to customers	222,550,508	13,880,143	53,290,370	27,404,904	2,662,841	319,788,766
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	5,274,736	91,973	1,636,303	38,286	-	7,041,298
Total	**230,477,657**	**15,115,975**	**55,886,284**	**29,000,599**	**2,662,841**	**333,143,356**
Net liquidity gap						
As of December 31, 2017	**(130,342,460)**	**14,637,479**	**6,264,757**	**145,294,408**	**56,134,210**	**91,988,394**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted Cash Flows of Monetary Assets and Monetary Liabilities as at 31 December 2016

In thousands of RSD

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and sight deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

Market risks

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

4.3. Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;
• Yield curve risk - to whom it is exposed due to change in yield curve shape;
• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

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

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate 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 monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

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

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2017.	2016.
Relative GAP	Max 15%	2.04%	1.02%
Coefficient of Disparity	0.75 - 1.25	1.02	1.01

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

Compliance with internally defined limits of economic value of capital:

	2017	2016
On December 31st	4.46%	3.64%
Average for period	4.93%	4.40%
Maximum for period	5.39%	5.16%
Minimum for period	4.46%	3.64%
Limit	**20%**	**20%**

Exposure to interest rate risk can also be seen on the basis of the GAP Statement of Interest Rate Risk of Monetary Assets and Liabilities.

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2017

In thousands of 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	16,820,938	-	-	-	-	16,820,938	39,255,810	56,076,748
Loans and receivables due from banks and other financial institutions	24,344,964	3,838,711	112,967	85,384	-	28,382,026	1,851,529	30,233,555
Loans and receivables due from customers	51,036,588	13,982,811	41,227,020	54,787,837	12,715,701	173,749,957	492,182	174,242,139
Financial assets (securities)	4,680,160	14,000,125	19,972,102	82,037,900	693,660	121,383,947	138,633	121,522,580
Other assets	-	-	-	-	-	-	4,290,672	4,290,672
Total	**96,882,650**	**31,821,647**	**61,312,089**	**136,911,121**	**13,409,361**	**340,336,868**	**46,028,826**	**386,365,694**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,657,555	2,654,829	196,475	626,327	22,396	6,157,582	-19,806	6,137,776
Deposits and other liabilities due to customers	224,541,827	16,025,194	50,859,171	23,763,258	1,329,434	316,518,884	1,058,864	317,577,748
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	7,014,799	7,014,799
Total	**227,199,382**	**18,680,023**	**51,055,646**	**24,389,585**	**1,351,830**	**322,676,466**	**8,053,857**	**330,730,323**
Interest rate GAP -At December 31, 2017	**(130,316,732)**	**13,141,624**	**10,256,443**	**112,521,536**	**12,057,531**	**17,660,402**	**37,974,969**	**55,635,371**

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on the GAP interest rate risk of the monetary sub-balance on December 31, 2016

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	23,524,673	-	-	-	-	23,524,673	38,394,429	61,919,102
Loans and receivables due from banks and other financial institutions	35,741,374	3,416,217	76,232	202,204	34,637	39,470,664	3,746,017	43,216,681
Loans and receivables due from customers	59,600,330	14,219,797	42,293,851	35,395,821	14,747,903	166,257,702	143,306	166,401,008
Financial assets (securities)	12,391,581	12,256,667	40,730,939	72,860,863	1,937,183	140,177,233	247,838	140,425,071
Other assets	-	-	-	-	.		3,234,339	3,234,339
Total	**131,257,958**	**29,892,681**	**83,101,022**	**108,458,888**	**16,719,723**	**369,430,272**	**45,765,929**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,257,587	4,270,624	1,702,744	560,589	23,228	9,814,772	7,747	9,822,519
Deposits and other liabilities due to customers	233,151,725	20,049,705	65,964,760	22,982,847	1,340,515	343,489,552	1,646,407	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,677,316	5,729,126
Total	**236,409,312**	**24,320,329**	**73,845,894**	**23,543,436**	**1,363,743**	**359,482,714**	**7,383,280**	**366,865,994**
Interest rate GAP -At December 31, 2017	**(105,151,354)**	**5,572,352**	**9,255,128**	**84,915,452**	**15,355,980**	**9,947,558**	**38,382,649**	**48,330,207**

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and sight deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

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

In modeling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Group on the basis of historical developments and expert assessments, is specifically considered, the Group has carried out an estimate of the movement of transaction deposits, demand deposits and household savings by applying relevant statistical models from domain analysis of time series.

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2017		
At 31 December	346,780	(346,780)
2016		
At 31 December	506,708	(506,708)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, 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 dinar (RSD) positions indexed by currency clause.

In order to minimize exposure to foreign exchange risk, the Group 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 Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

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

The Group comprehensively identifies in a timely manner 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 foreign exchange risk indicator;
• VaR;
• Stress test;
• Backtesting,

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

Foreign exchange risk control and monitoring includes monitoring and monitoring the 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 enabled timely measures to be taken to maintain foreign exchange 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 monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2017	2016
Total risk foreign exchange position	7,308,623	6,153,467
Foreign exchange risk indicator	14,29%	11,86%
Regulatory limit	20%	20%

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4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2017

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,980,237	194,101	532,982	4,276,526	**37,983,846**	-	-	-	18,092,902	**56,076,748**
Loans and receivables due from banks and other financial institutions	6,417,542	3,332,450	2,695,986	2,271,811	**14,717,788**	227,865	-	-	15,287,901	**30,233,555**
Loans and receivables due from customers	18,945,728	-	-	2,838,679	**21,784,407**	105,852,986	-	4,011,996	42,592,750	**174,242,139**
Financial assets (securities)	72,837,246	9,474,357	1,782,330	164,417	**84,258,350**	1,947,199	-	-	35,317,031	**121,522,580**
Other assets	1,676,506	262,767	887	153,019	**2,093,179**	-	-	-	2,197,493	**4,290,672**
Total	**132,857,259**	**13,263,675**	**5,012,185**	**9,704,452**	**160,837,571**	**108,028,051**	**-**	**4,011,996**	**113,488,077**	**386,365,695**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,887,061	34,162	20,137	209,334	**3,150,694**	2,388,808	-	-	598,274	**6,137,776**
Deposits and other liabilities due to customers	224,706,977	11,783,751	8,757,887	6,447,725	**251,696,340**	6,666,426	18,890	-	59,196,092	**317,577,748**
Subordinated liabilities	-	-	-	-	**-**	-	-	-	-	**-**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,394,516	1,027,312	84,513	100,363	**2,606,704**	8,921	-	-	4,399,174	**7,014,799**
Total	**228,988,554**	**12,845,225**	**8,862,537**	**6,757,422**	**257,453,738**	**9,064,155**	**18,890**	**-**	**64,193,540**	**330,730,323**
Net Currency Position, 31 December 2017	**(96,131,295)**	**418,450**	**(3,850,352)**	**2,947,030**	**(96,616,167)**	**98,963,896**	**(18,890)**	**4,011,996**	**49,294,537**	**55,635,372**

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2016

In thousand RSD

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

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and / or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2017 and 2016 is shown as follows:

In thousands of RSD

	Per daz December 31	Average	Maximum	Minimal
2017				
Foreign currency risk	28,582	30,447	55,893	17,137
2016				
Foreign currency risk	17,477	31,003	79,538	10,576

4.6. Operational risk

The Group members of the Group monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database, the organizational part of the Bank of the Group member Group in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and / or qualitative assessment of the identified operational risk. The Group members of the Group conduct measurement of operational risk exposure through event logging, self-evaluation and stress testing of operational risk. Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures. The stress test is an operational risk management technique, which assesses the potential impact of specific events and / or changes in several risk factors for exposure to operational risk.

The Group can't eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Banking Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Banking Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:
• Exposure to a single person or a group of related parties must not exceed 25% of the Group's capital;
• The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one person or a group of related parties also apply to persons associated with the Group.
The Group's exposure to one entity or group of related parties, as well as the exposure to persons related to the Group, was within the prescribed limits.

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

• Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

• Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

4. RISK MANAGEMENT (continued)

4.9. Country risk (continued)

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of claims according to the degree of risk of the borrower countries.
In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of 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	174,242,139	172,486,614	-	-	172,486,614	166,401,008	163,877,512
Financial assets held to maturity		**-**	**-**	**-**	**-**	**368,999**	**368,999**
Financial Liabilities							
Deposits and other liabilities due to customers	317,577,748	317,597,843			317,597,843	345,135,959	345,083,711

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to loan users, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Group would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Group.

The fair value of investment securities held to maturity is estimated using market prices or by using discounted cash flow models based on current market interest rates offered for instruments of a similar product. Held-to-maturity investments are matured and book values are equally fair.

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4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousands of 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	572,576	4,852,066	-	5,424,642
Securities available for sale (in RSD)	1,888,350	33,137,523	-	35,025,872
Securities available for sale (in foreign currency)	2,190,531	78,548,757	332,778	81,072,066
Total	**4,651,457**	**116,538,346**	**332,778**	**121,522,580**

In thousands of RSD

31.12.2016	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and	247,862	-	-	247,862
Securities available for sale (in RSD)	2,038,226	43,313,154	-	45,351,380
Securities available for sale (in foreign currency)	50,688,672	106,272,066	431,303	94,456,830
Total	**52,974,760**	**149,585,220**	**431,303**	**140,056,072**

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 in banking market is classified into Level 3.

4. RISK MANAGEMENT (continued)

4.11. Capital management

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

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

The main goals of managing the capital are:

- Preservation 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 regulatory capital of the banking group is the sum of the share capital (consisting of the basic share capital and additional equity capital) and the supplementary capital, deducted for the deductible items. Capital adequacy ratios represent the equity ratio of the Group (total, basic or basic share) and collects: the risk weighted exposure to credit risk, counterparty risk, the risk of a decrease in the value of purchased receivables and the risk of settlement / delivery on the basis of free delivery, settlement / 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 the free delivery of the banking group shall be determined in accordance with the prescribed risk weight for all classes of assets. Risk assets based on operational risk exposure 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. The capital requirement for foreign exchange risk at the level of the banking group is equal to the sum of individual capital requirements for this risk of all members of the banking group, where the sum of net open foreign exchange positions and absolute open positions in gold is greater than 2% of their capital.

Capital adequacy ratios		**In thousands of RSD**
	31.12.2017	**31.12.2016**
Basic capital	57,278,280	47,588,844
Basic share capital	56,904,770	-
Additional share capital	373,510	-
Supplementary capital	-	4,425,745
Deductible items of equity	(6,119,492)	(121,681)
Capital	**51,158,788**	**51,892,908**
Capital adequacy ratio (min 12.17%) 24.56%		
Risk of weighted exposure to credit risk, counterparty risk, risk of decreased value of purchased receivables and risk of delivery / delivery on the basis of free delivery	168,012,566	172,570,019
Risk assets based on operational risk exposure	33,979,411	23,173,092
Risk assets based on market risk exposure	6,349,897	2,720,463
Capital adequacy ratio (мin. 14.17%)	**24.56%**	**26.15%**
Capital adequacy ratio (мin. 12.17%)	**24.56%**	**-**
Indicator of the share capital adequacy ratio (мin. 10.67%)	**24.38%**	**-**

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

4. RISK MANAGEMENT (continued)

4.11. 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 adequacy of total, basic and basic equity capital respectively) .

By the Capital Management Strategy, the Bank Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2017, the Group calculated an indicator of leverage in accordance with the regulatory requirement, which represents the ratio of the basic 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 Group 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 banking Group is exposed or may be exposed,
• Provides adequate available internal capital in accordance with the risk profile of the banking group,
• is involved in the banking group management system and decision making;
• Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

• Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
• Calculation of the amount of internal capital requirements;
• determining the total internal capital requirement for individual risks;
• determining the total internal capital requirement;
• comparison of the following elements:

  - capital and available internal capital;
  - minimum capital requirements and internal capital requirements for individual risks;
  - the collection of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are accounted for using the depreciated cost method are assessed for impairment in the manner described in accounting policy 3 (j) (vii).

A portion 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.

Grouped provisions cover credit losses that are included in the portfolio of loans and securities held to maturity, which contain similar credit risk characteristics due to objective evidence of impairment but which can’t yet be identified. When assessing the need for a group loss provision, the management takes into account factors such as loan quality, portfolio size, risk concentration and economic factors. In order to estimate the required provision, assumptions are made to define the method for modeling the losses contained in the portfolio and determining the necessary input parameters, based on historical experience and current economic circumstances. The accuracy of the provision depends on the estimation of future cash flows for individual counterparties, as well as on the assumptions and model parameters used when determining group provisions.

Determination of fair value

Determining the fair value of financial assets and liabilities for which there is no market price requires the use of valuation techniques described in accounting policy 3 (j) (vi). For financial instruments that are rarely traded and whose price is not very transparent, fair value is less objective and requires varying degrees of estimation, depending on liquidity, concentration, uncertainty of market factors, price assumptions, and other risks related to individual instruments.

Key accounting estimates for the application of the Group's accounting policies

Key accounting estimates in the application of the Group's accounting policies include:

Impairment of investments in equity securities

Investments in equity securities are assessed for impairment in the manner described in accounting policies 3(j) (vii) and 3(lj)

Evaluation of financial instruments

The Group's accounting policies regarding fair value measurement are disclosed in accounting policy 3(j) (vi).

5. USE OF ASSESSMENT (continued)

Members of the Group measure fair value of financial assets using the following hierarchy regarding the quality of the input data used for valuation:

- Level 1: Official market prices (uncorrected) in the active market for identical instruments.
- Level 2: Evaluation techniques based on input data that are not market prices for identical instruments, but information is available and visible either directly (for example, prices) or indirectly (for example derived from the price). This category includes instruments that are measured through: official market prices in the active market for similar instruments, official market prices for the same or similar instruments in the market that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly available at market.
- Level 3: Evaluation techniques that use input data that are not available and visible. This category includes all instruments that are assessed on an input basis that are not available and visible and as such have a significant effect on the valuation of the instrument.

This category includes instruments that are valued on the basis of the official price for similar instruments, where significant adjustments or assumptions are needed to reflect differences between instruments.

Fair values of financial assets and financial liabilities traded on an active market are based on market prices or at prices offered by dealers. For all other financial instruments, the members of the Group determine the fair value using the valuation methods.

Evaluation methods include net present value and discounted cash flows, comparisons with similar instruments for which there are noticeable market prices, as well as other valuation methods. Assumptions and inputs used for valuation methods include risky and benchmark interest rates, credit ranges, and other factors used when estimating discount rates, bonds and equity prices, foreign exchange rates, equity, and capital price indices, and expected price volatility and correlations. The objective of the estimation method is to establish the fair value that reflects the price of a financial instrument on the balance sheet date that would be established by the market participants in an out-of-reach transaction.

The Group uses commonly accepted valuation models to determine the fair value of ordinary and simpler financial instruments, such as interest swaps and currencies for which exclusively marketable data is used and which require a low level of appreciation and assumptions from the management. Detectable and input model data are generally available on the market of quoted debt and equity securities, traded derivatives and simple derivatives such as interest swaps.

The availability of noticeable market prices and model input data reduces the need for management's estimates and assumptions, and also reduces the uncertainty associated with determining fair value. The availability of noticeable market prices and input data is generally different, depending on product and market, and is prone to changes due to different events and general conditions in future markets.

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The parent bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (note 6.1.) and
- Reporting by operational segments - business lines (note 6.2.).

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

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Budva, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Investment fund management company a.d Belgrade, Serbia	It includes investment fund management activities

The parent bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Dependent legal entities are not material to the individual financial report of the parent bank.

The balance sheet of the parent bank amounts to 92.9% of the total balance sheet total of the consolidated balance sheet (2016: 92.6%).

The balance sum of Komercijalna banka ad, Budva amounts to 3.05% of total consolidated assets (2016: 3.1%), Komercijalna banka ad, Banja Luka 4.04% (2016: 4.3%) and KomBank INVEST 0.01 % (2016: 0.002%).

The result of the strategic segment is used to measure business performance, since the management of the parent bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 7,226,876 thousand (2016: RSD 6,387,271 thousand). The income statement was eliminated from the income statement in the amount of RSD 68,429 thousand (2016: RSD 35,729 thousand) and expenditures in the amount of RSD 43,414 thousand (2016: RSD 19,467 thousand).

Balance sheet 2017

In thousands of RSD

Collective unconsolidated balance sheet		Balance sheet consolidation balance	Consolidated balance sheet
	407,335,192	**7,226,876**	**400,108,316**
Cash / Payables		1,192	
Placements / Liabilities		1,744,796	
Deposits / Capital		5,480,888	

Income Statement 2017

In thousands of RSD

Collective unconsolidated profit in the Income statement (before taxes)		Amount of consolidation of the income statement		Consolidated profit (before tax)
		income	expense	
	7,341,399	**68,429**	**43,414**	**7,316,383**
Interest		4,061	4,061	
Fees		9,469	9,469	
Exchange rate differences (reclassified to equity)		54,899	29,884	

Balance sheet 2016

In thousands of RSD

Collective unconsolidated balance sheet		Balance sheet consolidation balance	Consolidated balance sheet
	435,214,879	**6,387,271**	**428,827,608**
Cash / Payables		723,575	
Placements / Liabilities		182,809	
Deposits / Capital		5,480,888	

Income Statement 2016

In thousands of RSD

Collective unconsolidated profit in the Income statement (before taxes)		Amount of consolidation of the income statement		Consolidated profit (before tax)
		income	expenses	
	(6,549,948)	**35,729**	**19,467**	**(6,533,686)**
Interest		5,110	5,110	
Fees		9,377	9,377	
Exchange rate differences (reclassified to equity)		21,242	4,980	

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2017

For each of the strategic organizational parts, the management of the Parent Bank controls the internal management reports at least on a quarterly basis. Below is a review of the activities of strategic segments from the consolidated balance sheet and the consolidated profit and loss account for 2017 and 2016:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	49,840,887	2,366,019	3,869,842	-	56,076,748
Financial assets at fair value through profit and loss, held for trading	5,269,709	-	-	154,933	5,424,642
Financial assets available for sale	112,019,058	2,300,043	1,778,837	-	116,097,938
Loans and receivables due from banks and other financial institutions	29,047,033	778,990	407,532	-	30,233,555
Loans and receivables due from customers	153,897,367	7,104,793	13,239,979	-	174,242,139
Intangible assets	460,263	10,308	27,816	-	498,387
Property, plant and equipment	5,655,248	305,336	56,586	30	6,017,200
Investment property	1,988,608	112,256	279,700	-	2,380,564
Current tax assets	-	-	5,622	-	5,622
Deferred tax assets	857,096	6,431	-	-	863,527
Fixed assets held for sale and assets from discontinued operations	241,148	310,676	235,794	-	787,618
Other assets	6,798,285	506,853	173,478	1,760	7,480,376
TOTAL ASSETS	**366,074,702**	**13,801,705**	**20,075,186**	**156,723**	**400,108,316**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2017 (continued)

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Financial liabilities at fair value through profit and loss for trading	7,845	-	-	-	7,845
Deposits and other liabilities due to banks, other financial institutions and the Central bank	3,283,494	196,445	2,657,837	-	6,137,776
Deposits and other liabilities due to customers	292,471,640	11,960,678	13,145,430	-	317,577,748
Provisions	1,368,051	162,331	15,848	5,653	1,551,883
Current tax liabilities	-	47	1,672	32	1,751
Deferred tax liabilities	-	-	1,647	-	1,647
Other liabilities	7,543,442	83,554	101,032	1,522	7,729,550
Total liabilities	**304,674,472**	**12,403,055**	**15,923,466**	**7,207**	**333,008,200**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	7,341,571	(772,527)	113,036	9,334	6,691,414
Reserves	19,645,901	586,110	141,964	112	20,374,087
Non-controlling shares	-	-	65	-	65
Total equity	**67,022,022**	**(186,417)**	**255,065**	**9,446**	**67,100,116**
Total liabilities and equity	**371,696,494**	**12,216,638**	**16,178,531**	**16,653**	**400,108,316**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2016:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total:
ASSETS					
Cash and cash funds held with the central bank	55,153,209	2,421,787	4,344,106	-	61,919,102
Financial assets at fair value through profit and loss, held for trading	242,920	-	-	4,942	247,862
Financial assets available for sale	136,123,853	2,627,938	1,056,419	-	139,808,210
Financial assets held to maturity	-	368,999	-	-	368,999
Loans and receivables due from banks and other financial institutions	40,418,884	490,798	2,306,999	-	43,216,681
Loans and receivables due from customers	150,411,409	5,860,668	10,128,931	-	166,401,008
Intangible assets	362,507	12,826	19,213	-	394,546
Property, plant and equipment	5,856,458	347,360	47,319	50	6,251,187
Investment property	2,217,816	118,842	271,393	-	2,608,051
Current tax assets	-	-	7,283	-	7,283
Fixed assets held for sale and assets from discontinued operations	183,170	-	166,353	-	349,523
Other assets	6,252,584	963,105	37,976	1,491	7,255,156
TOTAL ASSETS	**397,222,810**	**13,212,323**	**18,385,992**	**6,483**	**428,827,608**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2016 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to banks, other financial institutions and the Central bank	7,111,380	256,639	2,454,500	-	9,822,519
Deposits and other liabilities due to customers	322,621,360	10,726,250	11,788,349	-	345,135,959
Subordinated liabilities	6,178,390	-	-	-	6,178,390
Provisions	1,787,294	204,768	28,647	798	2,021,507
Current tax liabilities	-	7,543	746	738	9,027
Deferred tax liabilities	23,592	25,451	4,414	-	53,457
Other liabilities	6,147,567	79,092	86,251	1,419	6,314,329
Total liabilities	**343,869,583**	**11,299,743**	**14,362,907**	**2,955**	**369,535,188**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(5,584,250)	(953,509)	26,197	8,873	(6,502,689)
Reserves	25,026,243	563,736	170,665	(151)	25,760,493
Non-controlling shares	-	-	66	-	66
Total equity	**59,476,543**	**(389,773)**	**196,928**	**8,722**	**59,292,420**
Total liabilities and equity	**403,346,126**	**10,909,970**	**14,559,835**	**11,677**	**428.827.608**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2017

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	14,048,478	570,143	739,378	400	15,358,399
Interest expenses	(1,606,137)	(76,856)	(158,168)	-	(1,841,161)
Net interest income	**12,442,341**	**493,287**	**581,210**	**400**	**13,517,238**
Fee and commission income	6,692,276	190,745	254,228	22,258	7,159,507
Fee and commission expenses	(1,616,461)	(44,896)	(84,273)	(276)	(1,745,906)
Net fee and commission income	**5,075,815**	**145,849**	**169,955**	**21,982**	**5,413,601**
Net gains on the financial assets held for trading	103,798	-	-	5,102	108,900
Net gains on the financial assets available for sale	44,323	534	10,386	-	55,243
Net foreign exchange losses and negative currency clause effects	(111,257)	24,405	9,430	20	(77,402)
Other operating income	938,083	22,482	20,059	23	980,341
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	17,883	2,356	16,103	-	36,342
Total operating income	**18,510,986**	**688,913**	**807,143**	**27,527**	**20,034,569**
Staff costs	(4,520,197)	(281,361)	(315,193)	(14,061)	(5,130,812)
Depreciation and amortization charge	(563,582)	(25,234)	(36,844)	(20)	(625,680)
Other expenses	(6,305,123)	(297,342)	(348,142)	(11,087)	(6,961,694)
(Loss)/Profit before taxes	**7,122,084**	**84,976**	**106,964**	**2,359**	**7,316,383**
Income tax	-	(46)	(9,300)	(35)	(9,381)
Gain on deferred taxes	1,335,828	29,978	898	-	1,366,704
Loss on deferred taxes	(405,710)	-	-	-	(405,710)
Profit/(loss) for the year	**8,052,202**	**114,908**	**98,562**	**2,324**	**8,267,996**
The gain that belongs to owners without the right of control	**-**	**-**	**1**	**-**	**1**

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December 31, 2017

6. SEGMENT REPORTING (continued)
6.1. Reporting by Strategic Segments - Members of the Group (continued)
B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2016

In thousands of RSD

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

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The parent bank has three operating segments:

- Transactions with legal entities Parent banks - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the parent bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the dependent members of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under note 6.1, and that the parent bank is more of 92% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, dependent members of the Group are shown under a single segment (Subsidiaries).

When looking at the profitability / outcome of each matrix of the Matrix, besides revenues and expenditures generated from client transactions, the income and expenses from internal relations between the segments of the Parent Bank are calculated by means of transfer prices determined on the basis of the respective market prices (net income / expenses from internal relations), as well as part of the net income / expenses that the parent Bank reported from the operations with subsidiaries.

Significant impact on the result in 2017 had net indirect write-offs amounting to RSD 36,342 thousand (of which the collected written off receivables amounted to RSD 738,593 thousand). In addition to the net income of indirect write-offs, the court's dispute in the amount of RSD 562,745 thousand was also affected by the amount of the results.

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 indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 8,546,404 thousand and account for 70.5% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (wages, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,783,836 thousand of direct costs (67.7% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above, the Group achieved profit before tax in the business year 2017 in the amount of RSD 7,316,383 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)
6.2. Operating Segment Report - Business Lines (continued)

The report for operational segments for 2017 is shown below:

In thousands of RSD

31.12.2017	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,367,966	2,649,990	5,030,522	-	1,309,921	-	15,358,399
Interest expenses	(880,868)	(224,091)	(501,178)	-	(235,024)	-	(1,841,161)
Net interest income	5,487,098	2,425,899	4,529,344	-	1,074,897		13,517,238
Net income/expenses from related party transactions	(886,255)	(768,155)	1,658,266	-	(3,856)	-	-
Net fees	3,198,742	1,290,502	586,570	-	337,787	-	5,413,601
Net fees from related party transactions	-	-	6,412	-	(6,412)	-	-
Profit before impairment allowance	7,799,585	2,948,26	6,780,592	-	1,402,416	-	18,930,839
Net gains/losses from impairment allowance	(310,881)	266,530	62,234	-	18,459	-	36,342
Profit before operating expenses	7,488,704	3,214,776	6,842,826	-	1,420,875	-	18,967,181
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(907,162)	-	(8.546,404)
Net exchange rate gain/(loss)	-	-	(111,257)	-	33,855	-	(77,402)
Net exchange difference from related parties transactions	-	-	54,899	-	(29,884)	(25,015))	-
Net other income/(expenses)	(82,584)	557,765	55,202	-	15,732	-	546,115
Profit before indirect operating expenses	1,622,284	2,099,822	6,658,983	-	533,416	(25,015)	10,889,490
Indirect operating expenses	(1,612,287)	(1,237,636)	(343,916)	-	(379,268)	-	(3,573,107)
Profit before taxes	**9,997**	**862,186**	**6,315,067**	**-**	**154,148**	**(25,015)**	**7,316,383**
Assets per segment							
Cash and cash equivalents	-	-	49,840,887	-	6,235,861	-	56,076,748
Cash from related parties transactions	-	-	-	-	1,192	(1,192)	-
Placements with banks	-	-	29,047,033	-	1,186,522	-	30,233,555
Placements with banks from related parties transactions	-	-	496,756	-	1,247,819	(1,744,575)	-
Placements with customers	81,512,171	72,385,196	-	-	20,344,772	-	174,242,139
Investment securities	-	-	117,288,767	-	4,233,813	-	121,522,580
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	16,000,648	2,032,646	-	18,033,294
Other from related parties transactions	-	-	-	221	-	(221)	-
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**35,282,625**	**(4,357,847)**	**400,108,316**
Liabilities per segment							
Liabilities to banks	-	-	3,283,494	-	2,854,282	-	6,137,776
Liabilities to banks from related parties transactions	-	-	1,249,011	-	496,756	(1,745,767)	-
Liabilities to customers	230,900,337	52,610,572	8,960,731	-	25,106,108	-	317,577,748
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	8,919,338	373,338	-	9,292,676
Other from related parties transaction	-	-	-	-	221	(221)	-
	230,900,337	**52,610,572**	**13,493,236**	**8,919,338**	**28,830,705**	**(1,745,988)**	**333,008,200**

Notes: Placements to microclients are presented within the segment of retail business
Indirect operating costs relate to expenditures that are not under the control of business segments

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Lines (continued)

The report for operational segments for 2016 is shown below:

In thousands of RSD

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

Notes: Placements to microclients are presented within the segment of retail business.
Indirect operating costs relate to expenditures that are not under the control of business segments

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

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST INCOME

Net interest income consists of:

		In thousands of RSD For the year that ends December 31,
	2017	**2016**
Placements with banks	304,534	374,300
Placements with customers	10,138,393	11,532,107
Central Bank	371,056	475,643
Investment securities	4,544,416	5,552,769
Interest income	**15,358,399**	**17,934,819**
Liabilities to banks and other financial organizations	(136,386)	(301,021)
Liabilities to customers	(1,282,452)	(2,393,200)
Received loans	(422,323)	(784,265)
Interest expense	**(1,841,161)**	**(3,478,486)**
Net interest income	**13,517,238**	**14,456,333**

Total interest income and expense accounted for using the effective interest method presented in the previous table relates to financial assets and liabilities not carried at fair value through profit and loss.

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9. NET INCOME / EXPENSES FROM THE FEE AND COMMISSION

Net fee and commission income / expenses consist of:

		In thousands of RSD For the year that ends December 31
	2017	**2016**
Income in RSD		
Fees for payment services	3,243,428	3,050,088
Fees for granted loans and guarantees-households	28,845	27,006
Fees for granted loans and guarantees-economy	152,973	183,068
Fee for purchase of foreign currency	455,964	453,082
Fee for brokerage and custody services	36,505	62,001
Card payment fees	1,795,588	1,540,401
Fees based on inquiries in the Credit Bureau	87,771	88,011
Fees and commissions for other banking services	561,413	617,090
	6,362,487	**6,020,747**
Revenues in foreign currency		
Fees for payment services	344,999	309,446
Fees for granted loans and guarantees-economy	34,376	29,804
Fee for brokerage and custody services	12,778	9,011
Card payment fees	285,881	176,070
Fees and commissions on other banking services	118,986	98,211
	797,020	**622,542**
	7,159,507	**6,643,289**
Expenditures in RSD		
Fees for payment services	(125,732)	(121,816)
Fees based on the purchase of foreign currency	(64,340)	(33,396)
Card payment fees	(770,319)	(520,990)
Fees based on inquiries in the Credit Bureau	(78,149)	(72,978)
Fees and commissions from other banking servicest	(138,458)	(146,738)
	(1,176,998)	**(895,918)**
Expenditures in foreign currency		
Fees for payment services	(93,909)	(83,444)
Card payment fees	(392,177)	(351,700)
Fees and commissions from other banking services	(82,822)	(218,704)
	(568,908)	**(653,848)**
	(1,745,906)	**(1,549,766)**
Net profit from fee and commission	**5,413,601**	**5,093,523**

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10. NET PROFIT ON THE BASIS OF FINANCIAL ASSETS INTENDED FOR TRADING

Net gains on the financial assets held for trading include:

	In thousands of RSD For the year that ends December 31 2017	2016
Gains on the fair value adjustment of securities – investment units	17,934	3,141
Gains on the fair value adjustment of securities – bonds	51,739	-
Gains on the sales of securities at fair value through profit and loss	47,280	75,897
Total revenues	**116,953**	**79,038**
Expenses from the change in the fair value of derivatives held for trading - SWAP	(7,845)	-
Losses on the fair value adjustment of securities – investment units	(208)	(34)
Losses on the sales of securities and other financial assets held for trading	-	(2,681)
Total expenditures	**(8,053)**	**(2,715)**
Net trading gain	**108,900**	**76,323**

11. NET PROFIT ON THE BASIS OF FINANCIAL ASSETS AVAILABLE FOR SALE

Net sales gain consists of:

	In thousands of RSD For the year that ends December 31 2017	2016
Gains on the sale of securities available for sale	55,454	195,433
Losses on the sale of securities available for sale	(211)	(865)
Net gains on the financial assets available for sale	**55,243**	**194,568**

Gains arising from the sale of securities available for sale in the amount of RSD 55,454 thousand refer to gains from the sale of Serbian government bonds in RSD in the amount of RSD 44,081 thousand and in foreign currency in the amount of RSD 11,373 thousand.

Losses on securities available for sale in the amount of RSD 211 thousand relate to losses on the sale of Serbian government bonds in RSD.

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12. NET PROFIT / LOSS FROM EXCHANGE DIFFERENCES AND EFFECTS OF CONTRACTED CURRENCY CLAUSE

	In thousands of RSD For the year ended December 31 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	14,940,221	3,988,051
Total profit	**16,718,065**	**7,806,382**
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	(10,645,235)	(5,703,585)
Total loss	**(16,795,467)**	**(7,800,306)**
Net profit / loss	**(77,402)**	**6,076**

13. OTHER OPERATING INCOME

a) Other operating income relates to:

	In thousands of RSD For the year ended December 31 2017	2016
Other income from operations	192,195	173,685
Other income	759,057	400,856
Gains on the reversal of provisions for the litigations (note 34)	29,089	1,020
Gains on the valuation of property and equipment	-	32,415
Total	**980,341**	**607,976**

13. OTHER OPERATING INCOME (continued)

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 19,898 thousand RSD.

During 2017, the Parent 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 the income of the Parent Bank:

• On the basis of the received 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 (RSD) 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 on the basis of the payment of the 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 gain on investments

		In thousands of RSD For the year ended December 31
	2017	**2016**
Gains on sales – participation in the capital of JUBMES banka	306	5,143
Total	**306**	**5,143**

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

Net impairment charges relate to:

	In thousands of RSD For the year ended 31 December 2017	2016
Impairment allowance of loans and receivables	(12,703,727)	(24,325,456)
Provisions for off-balance sheet items	(338,553)	(701,750)
Impairment allowance of direct write-off placements of loans and receivables	(5,951)	(15,498)
Reversal of impairment allowance of loans and receivables	11,948,417	(11,121,231)
Reversal of provisions for off-balance sheet items	397.562	784,280
Income from collection of receivables previously written-off	738,594	57,696
Total	**36,342**	**(13,079,497)**

As part of the position, the indirect write-offs of placements of balance sheet positions were also recorded by the Group and the impairment of material values acquired through collection of receivables in the amount of RSD 314,948 thousand based on the assessment of the value of the property and equipment by the authorized appraisers, in accordance with the internal acts of the Group.
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 write-off from the balance sheet to the off-balance sheet was previously carried out. The most significant collection amounts are: Koncern 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 made, which would have the effect of eliminating the allowance for impairment in accordance with the requirements of IAS 10.

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

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investment securities (Notes 21 and 22)	Other assets (Note 29)	Off-balance sheet liabilities (Note 34)	Total
Balance as of January 1, 2017	**311,994**	**32,090,602**	**165,879**	**3,576,411**	**493,492**	**36,638,378**
New impairment allowance	3,036	12,021,802	29,813	649,076	338,553	13,042,280
Decrease in impairment allowance	(65,660)	(11,713,345)	(27,211)	(142,201)	(397,562)	(12,345,979)
Foreign exchange effects	(46,791)	(831,505)	(3,523)	(45,139)	(2,215)	(929,173)
Write-offs	-	(13,599,616)	(164,955)	(26,646)	-	(13,791,217)
Other movements	-	805,676*	-	(870,584)	(260,686)	(325,594)
Balance as of December 31, 2017	**202,579**	**18,773,614**	**3**	**3,140,917**	**171,582**	**22,288,695**

* effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2017, the Group made an increase in the net cost of impairment and provisioning in the total amount of RSD 696,301 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 13,791,217 thousand refers to the decrease on the basis of permanent write-off by transferring to off-balance sheet with the Parent bank, KB Budva and KB Banja Luka, based on the application of uniform accounting policies.

15. STAFF COSTS

The costs of salaries, wages and other personal expenses consist of:

		In thousands of RSD For the year ended December 31
	2017	**2016**
Net salaries	3,067,911	3,010,170
Net benefits	480,967	488,056
Payroll taxes	453,421	442,875
Payroll contributions	1,003,739	963,233
Considerations paid to seasonal and temporary staff	15,291	17,670
Provisions for retirement benefits – net (Note 34)	32,606	50,724
Other staff costs	76,877	86,741
Total	**5,130,812**	**5,059,469**

16. DEPRECIATION/AMORTIZATION CHARGE

		In thousands of RSD For the year ended December 31
	2017	**2016**
Amortization charge – intangible assets (Note 25.2)	162,273	224,443
Depreciation charge – property and equipment (Note 26.2)	418,137	449,499
Depreciation charge – investment property (Note 27.1)	45,270	55,784
Total	**625,680**	**729,726**

17. OTHER EXPENSES

Other expenses relate to:

	In thousands of RSD For the year ended December 31 2017	2016
Cost of materials	401,199	386,972
Cost of production services	2,282,749	2,330,253
Non-material costs (without taxes and contributions)	2,746,978	2,956,348
Taxes payable	146,519	158,401
Contributions payable	792,567	767,084
Other operating cost	25,613	25,695
Other expenses	267,464	314,815
Losses on the valuation of property and equipment, investment property and intangible assets	107,576	676,944
Provisions for litigations (Note 34)	191,029	488,424
Total	**6,961,694**	**8,104,936**

a) Other expenses

Within the position of other expenditures of the Parent bank in the amount of RSD 262,117 thousand among others were 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 the life insurance policies of clients, valued for the Bank in the amount of RSD 111,554 thousand, and whose payment was assumed by the Bank for its burden. 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 write-off and write-off of fixed assets and intangible investments in the amount of RSD 5,409 thousand.

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 173,187 thousand (Note 34) refer to:

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

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18. INCOME TAX

The parent bank does not have the possibility to perform tax consolidation on the basis of valid regulations in the Republic of Serbia. The final amounts of tax liabilities for the Group members are determined by applying the tax rate to the tax base established by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

Tax rates for 2017 are:	
Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD For the year ended December 31 2017	2016
Current income tax	(9,381)	(21,318)
Deferred income tax benefits	1,366,704	315,718
Deferred income tax expense	(405,710)	(1,844)
Total	**951,613**	**292,556**

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

18.1. The Parent Bank

18.1.1. The components of the corporate income tax as at December 31 are as follows:

	In thousands of RSD For the year ended December 31 2017	2016
Deferred income tax benefits	1,335,828	314,453
Deferred income tax expense	(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, i.e. in the amount of RSD 1,235,813 thousand. Of this amount for covering the taxable profit for 2017, RSD 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. INCOME TAX (continued)

18.1. The Parent Bank (continued)

18.1.2. The adjustment of the effective tax rate is shown in the following table:

In thousands of RSD

	2017	2017	2016	2016
Profit / (Loss) for the year before taxes		**7,187,250**		**(6,175,885)**
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	-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	-12.94%	(930,118)	-3.75%	(314,453)
Tax effects stated within the income statement		**930,118**		**314,453**

18.1.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD

	For the year that ends December 31 2017	2016
Balance at 1 January	(23,592)	(329,258)
Creation and elimination of temporary differences	880,688	305,666
Balance at 31 December	**857,096**	**(23,592)**

18.1.4. Current tax assets

In thousands of RSD

	December 31, 2017	December 31, 2016
Current tax assets (paid monthly advance tax returns for 2017, prescribed by the Corporate Income Tax Law)	-	-

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

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.5. Deferred tax assets and liabilities

18.1.5.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

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

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.5. Deferred tax assets and liabilities (continued)

18.1.5.2 Overview of tax credits on which no deferred tax assets are formed:

In thousands of RSD

Type of tax credit	Year	Amount as at 31.12.2015	Amount as at 31.12.2016	Expiration date of use
Tax losses carried forward	2014	-	388,385	2019
	2015	2,533,717	10,384,084	2020
	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 based on 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 (bond note 18.1.1)

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December 31, 2017

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.5. Deferred tax assets and liabilities (continued)

18.1.5.3. Movements under temporary differences in 2017 and 2016 are presented as follows:

In thousands of RSD

2017	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Transfered tax losses	-	867,146	-	-	867,146
Securities	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Acturial gains	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

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
Employee benefits under Article 9 paragraph 2. CIT Law	-	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)**

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December 31, 2017

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.6. Tax effects related to the Other total result

In thousands of RSD

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value 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 actuarial 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**

18.2. Komercijalna banka ad, Budva

18.2.1. The components of the corporate income tax as at December 31 are as follows:

In thousands of RSD
For the year that ends December 31st

	2017	2016
Tax expense of the period	(47)	(7,543)
Profit from deferred taxes	29,978	1,265
Loss on deferred tax	-	(1,844)
	29,931	**(8,122)**

18. INCOME TAX (continued)

18.2. Komercijalna banka ad, Budva (continued)

18.2.2. The adjustment of the effective tax rate is shown in the following table:

	2017	2017	2016	2016
Profit / (Loss) before tax		**59,797**		**(1,111,428)**
Tax calculated at the local rate of 9%	9.00%	5,382	9.00%	(100,028)
Taxable income - related parties and capital gains	0.08%	47	-0.68%	7,543
Tax deductible expenses	1.79%	1,067	-0.11%	1,216
Tax credits	-10.79%	(6,449)	-7.53%	83,726
Effective income tax	0.08%	47	-0.68%	(7,543)
Tax effects of items reported in the income statement		**(47)**		**(7,543)**

18.3. Komercijalna banka ad, Banja Luka

18.3.1. The components of the corporate income tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2017.	2016.
Tax expense of the period	(9,299)	(12,921)
Profit from deferred taxes	898	-
	(8,401)	**(12,921)**

18.3.2. The adjustment of the effective tax rate is shown in the following table:

	2017	2017	2016	2016
(Loss) / Profit before tax		**89,714**		**38,821**
Tax calculated at the local income tax rate of 10%	10.00%	8,971	10.00%	3,882
Tax deductible expenses	5.43%	4,869	46.73%	18,140
The effects of the recognized deferred tax income	-	-	-17.35%	(6,735)
Income tax – free	-5.06%	(4,541)	-6.09%	(2,365)
Effective tax	10.37%	9,299	33.28%	12,921
Tax effects of items reported in the income statement		**(9,299)**		**12,921**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.3. Komercijalna banka ad, Banja Luka

18.3.3. Deferred tax liabilities at 31 December are shown as follows:

	In thousands of RSD For the year that ends Decembar 31st	
	2017	**2016**
Balance at 1 January	4,414	2,557
Creation and elimination of temporary differences	(2,767)	1,857
Balance at 31 December	**1,647**	**4,414**

18.4. KomBank INVEST Investment fund management company ad, Belgrade

18.4.1. The components of the corporate income tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st	
	2017	**2016**
Tax expense of the period	(35)	(854)
	(35)	**(854)**

18.4.2. The adjustment of the effective tax rate is shown in the following table:

	In thousands of RSD For the year that ends December 31	
	2017	**2016**
Profit before tax	940	28,045
Income tax at the statutory tax rate of 15%	141	4,207
The tax effects of net capital gains	35	854
Tax effects of differences of depreciation for tax purposes and accounting depreciation	40	41
Tax effects of losses for tax purposes	-	(411)
Correction of tax effects (effect of used and new)	(216)	(4,691)
Other	35	854
Tax effects of items reported in the income statement	**(35)**	**(854)**
Effective tax rate	**3.72%**	**3.05%**

19. CASH AND ASSETS IN THE CENTRAL BANK

Cash and balances with the central bank include:

	In thousands of RSD December 31 2017	December 31 2016
In RSD		
Cash on hand	3,045,919	3,327,335
Gyro account	15,047,427	20,295,030
Interest on obligatory RSD reserves	99	100
Other RSD cash funds	**18,093,445**	**23,622,465**
In foreign currencies		
Cash on hand	4,622,429	3,883,053
Foreign currency obligatory reserves	32,318,639	33,125,275
Other cash funds	1,042,235	1,288,309
	37,983,303	**38,296,637**
Total	**56,076,748**	**61,919,102**
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (Note 23.1)	5,199,540	10,867,916
Foreign currency obligatory reserves	(32,318,639)	(33,125,275)
Deposited surplus liquid assets	**(27,119,099)**	**(22,257,359)**
Cash and cash equivalents reported in statement of cash flows	**28,957,649**	**39,661,743**

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

The Parent Bank

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 registers.

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

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

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, but 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 equal to the foreign exchange reserve requirement.

19. CASH AND ASSETS IN THE CENTRAL BANK (continued)

The Parent Bank (continued)

Decision on amendment of the Decision on obligatory reserve dated 11.12.2015. (Official Gazette 102/2015), the rates of allocation of the foreign currency reserve requirement are as follows:

• FX deposits with deposits up to 730 days are 20%
• On foreign currency deposits deposited over 730 days the rate is 13%
• For RSD deposits indexed by currency clause, the rate is 100% irrespective of maturity.

By the Decision on the Reserve Requirement of the National Bank of Serbia, the Bank allocated a portion of the foreign currency reserve requirement in RSD in its giro account. The Bank does not make any interest on the obligatory reserve in foreign currency.

Other cash in foreign currency in the amount of RSD 184 thousand (2016: RSD 23 thousand) refers to the account with the Central Securities Depository for trading in securities.

Komercijalna banka ad, Budva

The mandatory reserve of the Bank as of December 31, 2017 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 9.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 8.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 9.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 15% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2017.

Komercijalna banka ad, Banja Luka

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

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From 1 July 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to 50% of the rate applied by the European Central Bank to Deposit Facility Rate - (S.glasnik Republike Srpske 33/2016).
If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

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

Trading assets are composed of:

In thousands of RSD

	December 31 2017	December 31 2016
Securities held for trading (in RSD)	2,184,287	247,862
Securities held for trading (in foreign currency)	3,240,355	-
Total (Note 4.1.6)	**5,424,642**	**247,862**

The structure of financial assets held for trading is shown in the table below:

In thousands of RSD

	December 31 2017	December 31 2016
Republic of Serbia bonds	1,628,010	-
Investment units of OIF KomBank Devizni fond	4,778	4,942
Investment units of OIF Novčani fond	551,499	242,920
Bonds of the Republic of Serbia in foreign currency	3,240,355	-
Total	**5,424,642**	**247,862**

Investment units as at 31 December 2017 in the total amount of RSD 556,277 thousand refer to investment units KomBank Novčani fond Beograd and OIF Foreign Exchange Fund.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Available-for-sale financial assets consist of:

In thousands of RSD

	December 31 2017	December 31 2016
Securities available for sale (in RSD)	33,470,304	43,826,167
Securities available for sale (in foreign currency)	82,627,637	96,063,753
Total (Note 4.1.6)	**116,097,941**	**139,889,920**
Impairment	(3)	(81,710)
Total	**116,097,938**	**139,808,210**

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).

Valuation of value in its entirety relates to bonds of local governments.

21. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Securities available for sale (in foreign currency) as at 31 December 2017 relate to long-term government bonds in the amount of RSD 77,178,120 thousand (2016: RSD 86,592,932 thousand), government bonds in the amount of 1,888,350 RSD 1,000 thousand (2016: RSD 2,038,226 thousand), government bonds of RSD 1,778,838 thousand (2016: RSD 827,069 thousand) and bonds of foreign banks Raiffeisen Bank International in the amount of RSD 1,782,330 thousand (2016: RSD 1,818,930 thousand).

Validation changes are shown as follows:

Impairment allowance of securities available for sale		**In thousands of RSD**
	December 31 2017	**December 31 2016**
Individual impairment allowance		
Balance at January 1st	81,710	370
Current year impairment allowance:		
Increase (Note 14)	29,813	81,230
Exchange rate effects (Note 14)	(3,523)	115
Items not included over the year (Note 14)	(27,211)	(5)
Permanent write-off	(80,786)	-
Total individual impairment allowance	**3**	**81,710**

22. FINANCIAL ASSETS WHICH HOLD TO MATURITY

Financial assets held to maturity consist of:		**In thousands of RSD**
	December 31 2017	**December 31 2016**
Securities held to maturity (in RSD)	-	84,169
Securities held to maturity (in foreign currency)	-	368,999
Impairment allowance	-	(84,169)
Total (Note 4.1.6)	**-**	**368,999**

Impairment allowance of securities held to maturity

		In thousands of RSD
	December 31 2017	**December 31 2016**
Balance at 1 January	84,169	97,669
Current year impairment allowance:		
Increase (Note 14)	-	936
Released during the year (Note 14)	-	(936)
Permanent write-off	(84,169)	(13,500)
Total Corrections	**-**	**84,169**

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

23.1 Placements to banks include

	In thousands of 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)	5,199,539	10,867,916
Overnight loans	2,144,357	585,677
Other loans and receivables due from foreign banks	972,056	772,678
Foreign currency deposits placed with other banks	5,929,799	6,204,867
Prepayments	819	710
Other receivables	13,004	9,184
Secured foreign currency warranties	889,202	1,050,864
Impairment	(202,579)	(311,994)
	14,946,197	**19,179,902**
Total	**30,233,555**	**43,216,681**

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 from 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 up to one year with an annual interest rate ranging from 0.10% to 0.25% for the EUR currency, from 0.30% to 1.25% for USD and from 0.13% to 0.40% for CHF.

Long-term time deposits with banks in foreign currency were deposited at the annual interest rate in the range of 0.25% to 0.25%.

Interest rates on placements of short-term loans in foreign currency ranged from 5.90% to 6.80%, while interest rates on planned long-term loans in foreign currency ranged from 4.05% to 6.90%.

23.2 Changes in the value adjustment account by placements to banks are presented in the the following table:

Impairment	**2017**	**2016**
Balance at 1 January	311,994	399,898
Impairment in the current year:		
Increase (Note 14)	3,036	4,051
Effects of exchange rate change (Note 14)	(46,791)	15,585
Permanent write-off	-	(105,463)
Released during the year (Note 14)	(65,660)	(2,077)
Balance at 31 December	**202,579**	**311,994**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

In thousands of RSD

	2017			2016		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	547,983	(15,523)	532,460	599,731	(77,830)	521,901
Working capital loans	41,111,061	(6,948,860)	34,162,201	47,892,654	(8,143,530)	39,749,124
Export loans	59,381	-	59,381	2,171,791	(2,039,330)	132,461
Investment loans	31,305,119	(2,591,763)	28,713,356	30,263,822	(4,018,372)	26,245,450
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	507,877	(325,392)	182,485
Other loans and receivables	43,331,933	(7,271,480)	36,060,453	43,592,100	(11,901,963)	31,690,137
Prepayments	146,649	(24,290)	122,359	225,863	(127,098)	98,765
Accruals	(174,533)	-	(174,533)	(226,002)	-	(226,002)
	118,853,409	**(17,132,701)**	**101,720,708**	**127,632,640**	**(28,732,318)**	**98,900,322**
Retail customers						
Transaction account overdrafts	3,852,990	(425,362)	3,427,628	4,035,694	(709,744)	3,325,950
Housing loans	41,444,608	(660,884)	40,783,724	42,521,786	(1,113,184)	41,408,602
Cash loans	26,591,048	(429,866)	26,161,182	21,559,287	(1,030,537)	20,528,750
Consumer loans	285,226	(6,927)	278,299	408,830	(47,905)	360,925
Other loans and receivables	2,369,413	(114,850)	2,254,563	2,713,060	(453,876)	2,259,184
Prepayments	229,137	(3,024)	226,113	216,355	(3,038)	213,317
Accruals	(610,078)	-	(610,078)	(596,042)	-	(596,042)
	74,162,344	**(1,640,913)**	**72,521,431**	**70,858,970**	**(3,358,284)**	**67,500,686**
Balance as at December 31	**193,015,753**	**(18,773,614)**	**174,242,139**	**198,491,610**	**(32,090,602)**	**166,401,008**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

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

In thousands of RSD

	December 31 2017	December 31 2016
Individual impairment allowance		
Balance as at January 1	**29,920,987**	**35,918,535**
Current year impairment allowance:		
Increase (Note 14)	7,337,739	11,692,716
Reclassified from group to individual impairment allowance	197,466	(2,731,965)
Effects of the changes in foreign exchange rates (Note 14)	(419,849)	120,287
Reversal (Note 14)	(6,605,172)	(3,360,826)
Permanent write-off	(13,010,356)	(11,816,533)
Previous years interest income	2,014	-
Other (Note 14)	23,901	98,773
Total individual impairment allowance	**17,446,730**	**29,920,987**
Group impairment allowance		
Balance as at January 1	**2,169,615**	**2,214,935**
Current year impairment allowance:		
Increase (Note 14)	4,684,063	10,923,432
Reclassified from group to individual impairment allowance	(197,466)	2,731,965
Effects of the changes in foreign exchange rates (Note 14)	(411,656)	362,704
Reversal (Note 14)	(5,108,173)	(7,570,216)
Written off (Note 14)	(589,260)	(7,095,673)
Other (Note 14)	779,761	602,468
Total group impairment allowance	**1,326,884**	**2,169,615**
Balance as at December 31	**18,773,614**	**32,090,602**

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 with nominal interest rates ranging from 3.5% to 18.5% 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 0.2% to 13.00% annually.

Long-term loans to households in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 2.0% to 12.95% 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 15.0% annually. In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.3% to 13.2% per annum.

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 of up to forty-four months with an interest rate of EUR from 1.25% to 11.99% annually.

Risks and uncertainties

Management of the Group members made provision for potential credit losses on the basis of all known and foreseeable risks at the date of preparation of the financial statements. The classification of claims from the loan portfolio was based on 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 members of the Group, receivables are mostly provided to mortgages on immovable property of the debtor, as well as pledge on movable property. In the event that these activities undertaken by the management of the Group members 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. INTANGIBLE INVESTMENTS

25.1 Intangible assets consist of

In thousands of RSD

	December 31 2017.	December 31 2016.
Intangible assets	367,875	391,983
Intangible assets in progress	130,512	2,563
Total	**498,387**	**394,546**

25.2 Changes in intangible assets during 2017 and 2016 are shown in the following table

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2016	1,868,107	11,307	1,879,414
Additions	5,146	361,425	366,571
Transfers	370,234	(370,234)	-
FX Adjustments	3,790	65	3,855
Balance as at December 31, 2016	**2,247,277**	**2,563**	**2,249,840**
Balance at January 1, 2017	2,247,277	2,563	2,249,840
Additions	4,755	262,196	266,951
Transfers	134,186	(134,186)	-
FX Adjustments	(11,090)	(61)	(11,151)
Balance as at December 31, 2017	**2,375,128**	**130,512**	**2,505,640**
Depreciation			
Balance at January 1, 2016	1,627,466	-	1,627,466
Depreciation (Note 16)	224,443	-	224,443
FX Adjustments	3,385	-	3,385
Balance as at December 31, 2016	**1,855,294**	**-**	**1,855,294**
Balance at January 1, 2017	1,855,294	-	1,855,294
Depreciation (Note 16)	162,273	-	162,273
FX Adjustments	(10,314)	-	(10,314)
Balance as at December 31, 2017	**2,007,253**	**-**	**2,007,253**
Net Book Value			
Balance as at December 31, 2016	**391,983**	**2,563**	**394,546**
Balance as at December 31, 2017	**367,875**	**130,512**	**498,387**

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26. PROPERTY, PLANT AND EQUIPMENT

26.1 Property, plant and equipment consist of:

	December 31 2017	December 31 2016
		In thousands of RSD
Property	5,240,836	5,548,211
Equipment	634,924	652,080
Investments in progress	141,440	50,896
Total	**6,017,200**	**6,251,187**

26.2 Movements on property, plant and equipment during 2017 and 2016 were as follows:

In thousands of RSD

Cost	Property	Equipment	Investment in Progress	Total
Balance at January 1, 2016	7,357,922	3,798,783	48,660	11,205,365
Additions	13,925	7,028	381,725	402,678
Transfers from assets to assets in progress	67,693	133,855	(201,548)	-
Transfers to investment in progress (Note 27.1)	-	-	(79,470)	(79,470)
Transfers from investment property	339,823	-	-	339,823
Transfers on assets held for sale	(77,669)	-	(98,550)	(176,219)
Transfers from assets acquired through collection of receivables	103,579	-	-	103,579
Disposals and retirements	(11,037)	(42,065)	-	(53,102)
Sales	-	(2,446)	-	(2,446)
Appraisal increase	490,255	-	-	490,255
Appraisal decrease	(661,708)	-	-	(661,708)
FX adjustments	4,073	8,060	79	12,212
Balance at December 31, 2016	**7,626,856**	**3,903,215**	**50,896**	**11,580,967**
Balance at January 1, 2017	7,626,856	3,903,215	50,896	11,580,967
Additions	-	3,962	359,456	363,418
Transfers from assets in progress	60,058	213	(268,829)	4,229
Transfers on investment in progress (Note 27.1)	(14,773)	-	-	(14,773)
Transfers to assets for sale	(176,051)	-	-	(176,051)
Transfers from equipment	787	(787)	-	-
Transfers from assets acquired through collection of receivables	-	4,013	-	4,013
Disposals and retirements	(67,183)	(115,536)	-	(182,719)
Sale	-	(15,907)	-	(15,907)
FX adjustments	(23,032)	(21,708)	(83)	(44,823)
Balance at December 31, 2017	**7,406,662**	**3,970,252**	**141,440**	**11,518,354**

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.2 Movements on property, plant and equipment during 2017 and 2016 were as follows (continued)

In thousands of RSD

	Property	Equipment	Investment in Progress	Total
Depreciation				
Balance at January 1, 2016	1,789,178	3,024,180	-	4,813,358
Depreciation (Note 16)	186,169	263,330	-	449,499
Transfers on investment in progress (Note 27.1)	68,698	-	-	68,698
Transfers on assets held for sale	(48,397)	-	-	(48,397)
Transfers from assets acquired through collection of receivables	65,161	-		65,161
Disposals and retirements	(8,959)	(41,176)	-	(50,135)
Sale	-	(2,256)	-	(2,256)
Appraisal increase	162,200	-	-	162,200
Appraisal decrease	(136,847)	-	-	(136,847)
FX adjustments	1,442	7,057	-	8,499
Balance as at December 31 2016	**2,078,645**	**3,251,135**	**-**	**5,329,780**
Balance at January 1, 2017	2,078,645	3,251,135	-	5,329,780
Depreciation (Note 16)	186,308	231,829	-	418,137
Transfers from investment properties (Note 27.1)	(3,265)	-	-	(3,265)
Transfers on assets held for sale	(25,486)	-	-	(25,486)
Transfers from assets acquired through collection of receivables	1,833	-		1,833
Disposals and retirements	(62,116)	(112,639)	-	(174,755)
Sale	-	(15,322)	-	(15,322)
FX adjustments	(10,093)	(19,675)	-	(29,768)
Balance as at December 31, 2017	**2,165,826**	**3,335,328**	**-**	**5,501,154**
Net book value				
Balance as at December 31, 2016	**5,548,211**	**652,080**	**50,896**	**6,251,187**
Balance as at December 31, 2017	**5,240,836**	**634,924**	**141,440**	**6,017,200**

Members of the Group do not have mortgaged buildings to secure repayment of the loan. Due to incomplete cadastral books, as of December 31, 2017, the Parent Bank does not have evidence of ownership for 34 construction facilities with the current value of RSD 515,278 thousand (the number of facilities includes assets acquired through collecting receivables). The parent bank's management takes all the necessary measures to obtain ownership papers.

Based on the Annual list of the Group members, the amount of RSD 1.006 thousand of the permanently useless fixed assets of the present value is disposed of and disposed of.

During 2017, the ParentBank sold equipment with total present value in the amount of RSD 24 thousand, while Komercijalna banka ad. Banja Luka equipment with total present value in the amount of RSD 561 thousand.

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27. INVESTMENT PROPERTY

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

	In thousands of RSD Total
Cost	
Balance at January 1, 2016	3,188,793
Transfer from investments in progress (Note 26.2)	79,470
Transfers to PP&E	(339,823)
Transfers from assets held for sale	145,516
Transfers from assets acquired through collection of receivables	361,681
Sale	(60,757)
Appraisal – decrease (Note 17)	(269,621)
FX adjustments	2,487
Balance at December 31, 2016	**3,107,746**
Balance at January 1, 2016	3,107,746
Transfer from PP&E	14,773
Transfers from assets held for sale	23,461
Transfers from assets acquired through collection of receivables - corection	(5,272)
Sale	(117,034)
Appraisal – decrease (Note 17)	(79,477)
FX adjustments	(26,675)
Balance at December 31, 2017	**2,917,522**
Depreciation	
Balance at Janaury 1, 2016	288,872
Depreciation (Note 16)	55,784
Transfer to PP&E	(68,698)
Transfers from assets acquired through collection of receivables	242,839
Sale	(1,628)
Appraisal – decrease (Note 17)	(17,603)
FX adjustments	129
Balance as at December 31, 2016	**499,695**
Balance at January 1, 2017	499,695
Depreciation (Note 16)	45,270
Transfer from PP&E	3,265
Transfers from assets acquired through collection of receivables	7,672
Sale	(4,438)
Appraisal – decrease (Note 17)	(3,520)
FX adjustments	(10,986)
Balance as at December 31, 2017	**536,958**
Net book value	
Balance as at December 31, 2016	**2,608,051**
Balance as at December 31, 2017	**2,380,564**

27. INVESTMENT PROPERTY (continued)

Information on investment property per members of the Group is presented below:

27.2.1 The parent bank

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

In 2017, based on the assessment of the authorized external assessor, a decrease in the value of investment property in the amount of RSD 75,957 thousand was made against the impairment expenses (part of note 17).

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

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(23,507)	47,193	23,686
Niš, Vrtište new D - building	1,816	(4,251)	-	(4,251)
Niš, TPC Kalča	85	(806)	4,748	3,942
Beograd, Omladinskih brigade 19	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. February 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 locals	367	(2,010)	1,877	(133)
Kotor, Old Town, Palata beskuća, business area, number 1	207	(1,578)	5,553	3,975
Beograd, Luke Vojvodića 77a	80	432	654	222
		(79,100)	**106,967**	**27,867**

27. INVESTMENT PROPERTY (continued)

27.2.2 Komercijalna banka ad, Banja Luka

As at 31 December 2017, the Bank has classified investment properties in the amount of RSD 279,700 thousand, which make the buildings lease.

On the basis of the concluded long-term lease agreement, in 2017, the Bank made a transfer to investment property from the position of fixed assets intended for sale (family residential building, office buildings and land located in Saračica, Banja Luka) in the amount of RSD 23,461 thousand.

Estimation of the value of investment property where the estimated value was higher than the net book value in 2017:

Property	Area in m^2	Book value before the appraisal in 000 RSD	Appraisal value		Difference in 000 RSD
			In 000 EUR	In 000 RSD	
Business building: Ground floor-production warehouse; Ground floor - administrative part; Floor-administrative part; Attic-administrative part located in the Non-custom area District Brcko - Industrial and labor zone	1,024	41,940	362,713	42,971	1,031
Business building-production building: Non-custom area Distrikt Brcko	949	27,815	242,983	28,787	972
Business building-warehouse located in the Non-custom area District Brcko - Industrial and labor zone	873	12,423	107,604	12,748	326
Land located in the Non-custom area District Brcko - Industrial and labor zone	1,958	8,119	68,530	8,119	-
Land located in the Non-custom area District Brcko - Industrial and labor zone	2,763	9,820	82,890	9,820	-
Land located in the Non-custom area District Brcko - Industrial and labor zone	2,476	8,800	74,280	8,800	-
Land in Nova Topola	6,514	11,373	96,000	11,373	-
Business catering facility and land - Nova Topola	9,136	136,153	1,169,000	138,495	2,342
Family residential building, Saracica, Banja Luka	438	10,918	148,800	17,629	6,710
Business building - office building, Saračica, Banja Luka	104	2,414	32,900	3,898	1,484
Business building - workshop, Saracica, Banja Luka	136	2,209	30,100	3,566	1,357
Business building - workshop for stone processing, Saracica, Banja Luka	96	1,702	23,200	2,749	1,046
Land, Saracica, Banja Luka	6,750	6,014	81,000	9,596	3,583
TOTAL		**279,700**	**2,520,000**	**298,551**	**18,851**

27. INVESTMENT PROPERTY (continued)

27.2.2 Komercijalna banka ad, Banja Luka (continued)

The Bank has not recognized the increase in the value of investment property on the basis of the performed assessment.

As at 31 December 2017, the net result on the basis of investment property amounts to RSD 4,971 thousand:

In thousands of RSD

Object Name	Area in m²	Total Cost	Realized rental income	Net result
Brcko, Bescarinska zona bb	7,197	(2,087)	4,668	2,581
Nova Topola, land	5,767	-	372	372
Štrbac Milovan and Miroslav		(278)	559	281
Actros motel-pizzeria Nova Topola	5,437	(2,401)	4,138	1,737
		(4,766)	**9,737**	**4,971**

27.2.3 Komercijalna banka ad, Budva

As at 31 December 2017, the Bank has listed investment property in the amount of RSD 112, 256 thousand, which make the buildings lease.

As at 31 December 2017, the net result on the basis of investment property amounts to RSD 2,954 thousand:

In thousands of RSD

Object Name	Area in m²	Total Cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	2,276	2,276
Apartment in Budva	50	-	364	364
Land and commercial space - Božaj	100	-	314	314
		-	**2,954**	**2,954**

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

		In thousands of RSD
	December 31 2017.	December 31 2016.
Assets held for sale and discontinued operations	787,618	349,523
Total	**787,618**	**349,523**

a) Assets held for sale at the Parent bank:

		In thousands of RSD
<u>Object Name</u>	**Area in m²**	**Booking value**
Jasika, office space	75.87	559
Požarevac, Moše Pijade 2, commercial space	826.82	28,968
Požarevac, Moše Pijade 2, commercial space	880.86	23,969
Vrbas M. Tita 49, commercial space	145.56	3,130
Kotor, business premises 1 and 2	690.00	95,002
Jastrebac, resort building	687.00	20,443
Jastrebac, summer house	108.00	1,667
Jastrebac, house for aggregate	65.00	322
Belgrade, Palmira Toljatija 5	637.00	67,088
Total		**241,148**

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

During 2017, three business premises were sold inBelgrade, and on that basis, fixed assets intended for sale of the present value of RSD 81,836 thousand 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 parent bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

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28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m2	Booking value in thousands of RSD
Business space Posusje	1,289.00	22,480
Commercial building and land, Kočićevo, Gradiska	5,333.50	16,646
Family apartment building, Prijedor	505.65	5,686
Business buildings and land, Mrkonjić grad	2,619.00	4,349
Business building and land, Hadzici	775.00	19,183
Business buildings and land, Prijedor	7,043.00	60,766
Commercial building and land, Rovine, Gradiška	961.00	5,166
Real estate-apartment, Pale	71.00	2,989
Business premises - Brčko District	29.00	1,731
Business premises - Brčko District	52.00	4,326
Production and Commercial Complex Brčko Distrikt	67,272.00	59,062
Equipment - machines		4,974
Goods-farming, Bijeljina		1,665
Motor vehicle Renault Master		1,221
Telescopic handler -SGENIE GTH3007		985
Commercial goods - warehouse Kondic Komerc Kozarska Dubica		20,092
Spare parts and supplies - Kozarska Dubica		4,483
		235,794

During the year 2017 there were sales of properties held for sale.

During 2017, various commodities were sold (agricultural goods, lacrosse equipment and Alfa Romeo passenger car) and on that basis, fixed assets were sold for the sale of the present value of RSD 1,601 thousand. The total sale price of these facilities amounts to RSD 1,241 thousand. A sales loss of RSD 360 thousand was realized.

During 2017, on the basis of the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale in the amount of RSD 5,961 thousand was made.

In compliance with the internal acts of the Bank, a decrease in the value of fixed assets intended for sale in the amount of RSD 106 thousand has been made.

In 2017, additional impairment was also made on the basis of the Decision issued by the Banking Agency of the Republic of Srpska for the realization of the established findings in the Report on the Detailed Review of the Bank's assets as of March 31,2017. On this basis, the decrease in the value of fixed assets intended for sale amounts to RSD 14,801 thousand.

Total impairment of fixed assets intended for sale during 2017 is RSD 20,868 thousand. The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

c) Assets held for sale at Komercijalna banka ad, Budva:

Object Name	Area in m2	Booking value in thousands of RSD
House in Podgorica with self-service and land	710	10,822
6 business premises at the Stari Aerodrom in Podgorica	497	26,217
Pasture area on Ćemovsko polje in Podgorica	375	1,186
2 apartments and 2 garages in Perazic Dol in Budva	123	18,137
Land in Razevici	547	6,649
Land and auxiliary building in Podgorica	849	-
Land and production hall for wood processing in Andrijevica (3 auxiliary buildings and buildings in the energy sector)	14,233	8,850
Land and houses in Danilovgrad	1,744	4,846
Land and family residential building in Danilovgrad	16,959	18,331
Unurbanized land in Kotor	31,534	39,298
Forest in Budva	709	14,952
Forest and meadow in Vranovići	3,131	2,758
Land in Kotor	3,362	5,497
Land and fish factory (buildings) in Rijeka Crnojevića (Cetinje)	50,455	94,023
Apartment in Niksic	65	2,434
Urbanized plot in Herceg Novi	300	1,386
Urbanized plot in Podgorica	1,684	11,753
Urbanized plot in Risan	425	4,111
Forests, fields and pastures in Bar	12,501	10,110
2 Business premises in Petrovac	173	23,416
Business premises Hoti - Podgorica	45	5,900
TOTAL		**310,676**

During the year 2017 there were sales of properties held for sale.

In 2017, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 55,856 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

29. OTHER ASSETS

Other assets consist of:

		In thousands of RSD
	December 31 2017	**December 31 2016**
In RSD		
Fee receivables per other assets	102,745	94,293
Inventories	158,202	144,858
Assets acquired in lieu of debt collection	3,412,873	4,923,560
Prepaid expenses	120,459	100,430
Equity investments	1,572,140	1,380,921
Other RSD receivables	3,003,211	2,940,037
	8,369,630	**9,584,099**
Impairment allowance of:		
Fee receivables per other assets	(44,251)	(44,608)
Assets acquired in lieu of debt collection	(1,507,288)	(2,003,398)
Equity investments	(504,732)	(503,761)
Other RSD receivables	(944,035)	(875,893)
	(3,000,306)	**(3,427,660)**
In foreign currencies		
Fee receivables per other assets	2,104	77
Other receivables from operations	813,355	466,583
Receivables in settlement	1,379,082	872,143
Other foreign currency receivables	157,975	34,599
	2,352,516	**1,373,402**
Impairment allowance of		
Other receivables from operations	(163,542)	(193,464)
Receivables in settlement	(77,922)	(81,221)
	(241,464)	**(274,685)**
Total	**7,480,376**	**7,255,156**

On the basis of the performed annual inventory, the parent bank has made a write-off of the material expenses in the total amount of RSD 22 thousand.

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29. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance

In thousands of RSD

	December 31 2017	December 31 2016
Balance at 1 January	1,235,731	718,902
Impairment in the current year:		
Increase (Note 14)	197,905	878,707
Effects of change in exchange rate (Note 14)	(35,144)	13,473
Release during the year (Note 14)	(20,151)	(5,599)
Permanent write-off	(16,865)	(62,482)
Other	(469,439)	(307,270)
Total individual correction	**892,037**	**1,235,731**

Group impairment

In thousands of RSD

	December 31 2017	December 31 2016
Balance at 1 January	2,340,680	1,920,152
Impairment in the current year:		
Increase (Note 14)	451,171	744,384
Effects of change in exchange rate (Note 14)	1,335	2,875
Release during the year (Note 14)	(122,050)	(181,572)
Permanent write-off	(9,781)	(52,356)
Other	(401,146)	(92,803)
Total group value adjustment	**2,248,880**	**2,340,680**
Balance at December 31 (without small inventory)	**3,140,917**	**3,576,411**
Correction of inventory value (not subject to credit risk)	100,851	125,934
Balance at December 31 (with small inventory)	**3,241,770**	**3,702,345**

29. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

	2017	2016
	In RSD thousand	
Participation in the capital of banks and financial organizations	80,270	82,536
Participation in the capital of enterprises and other legal entities	464,902	468,277
Participation in the capital of foreign persons abroad	1,026,968	830,108
	1,572,140	**1,380,921**
Value adjustments based on:		
Participation in the capital of banks and financial organizations	(80,270)	(81,863)
Equity participation of enterprises and other legal entities	(424,462)	(421,898)
	(504,732)	**(503,761)**

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

The company's equity shares mostly relate to: October 14th, Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand, the Company Dunav osiguranje a.d.o. Belgrade in the amount of RSD 60,276 thousand and Politika a.d. Belgrade RSD 31,073 thousand.

Participation in the capital of foreign entities abroad relates to the company VISA INC in the amount of RSD 845,688 thousand and MASTER Card International in the amount of RSD 180,925 thousand and Montenegro Stock Exchange Podgorica in the amount of RSD 355 thousand.

a) Equity investments (continued)

The impairment of the equity participation in the amount of RSD 504,732 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousand, Politika a.d., Belgrade in the amount of RSD 28,484 thousand and Dunav osiguranje ad, Beograd in the amount of RSD 28,828 thousand.

b) Other receivables and receivables in the calculation

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 947,270 thousand, operating receivables in the amount of RSD 286,986 thousand, receivables based on material values received by collection of receivables in the amount of RSD 3,412,873 thousand (value adjustments in the amount of RSD 1,507,288 thousand), claims arising from advances granted for working capital in the amount of RSD 26,557 thousand, claims on lease RSD 434,444 thousand, claims for default interest on the basis of stocks s assets in the amount of 204,787 thousand and receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%).

Within the position of Other receivables in foreign currency settlement of the total amount of RSD 1,379,082 thousand, the most significant amount of RSD 1,251,557 thousand refers to receivables based on spot transactions.

29. OTHER ASSETS (continued)

c) Foreclosed assets

Foreclosed assets totaling RSD 3,412,873 thousand, less recorded impairment allowance of RSD 1,507,288 thousand, with the net carrying value of RSD 1,905,585 thousand relate to members of the group:

Parent Bank

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

In RSD thousand

Description	Area in м2	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, auxiliarry 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** Assets foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision*

In RSD thousand

Description	Area in м2	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 CONSOLIDATED FINANCIAL STATEMENTS
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29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

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

In RSD thousand

Description	Area in m^2	Value	Acquisition Date
Valjevo, village Radjevo, warehouse	394	439	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,45	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	58,4	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, building 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, grassland category 2	230	49	22.12.2015.
Svilajnac, Kodublje, business building, production 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, fields, grassland, 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**	

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

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

In RSD thousand

Description	**Value**	**Acquisition Date**
Kruševac, movables (machinery, furniture, equipment)	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**	

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

In RSD thousand

Description	**Value**	**Acquisition Date**
Movable property, agricultural machinery and tools	4,365	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. Total net carrying value of the property was RSD 399,651 thousand, and it was sold for RSD 29,234 thousand.

Furthermore, during 2017 the Bank sold two more properties. The total sales price of the aforesaid properties amounted to RSD 313 thousand.

The effect of the impairment of assets acquired through the collection of debts in 2017 is shown in the table:

In RSD 000

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 longer than 12 months, even though the appraisal value is higher than book value
- For equipment RSD 3,448 thousand based on lower appraisal market value.

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.

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December 31, 2017

29. OTHER ASSETS (Continued)

c) Foreclosed assets - *Parent Bank* (continued)

G1.1. Appraisal value of foreclosed properties

Property	Area in M2	Book value before the appraisal	Appraisal value In EUR thousands	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, cement 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, factory complex	6,876	104,334	977	100,578	(3,756)
Reževići, Montengro, category 5 forest	5,638.54	82,528	1,087	81,042	(1,486)
Kotor, business premises, building no. 1 PD 4	345	81,014	584	69,626	(11,388)
Kotor, business premises,building no. 1 PD6	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 warehouse	2,492	48,007	811	46,278	(1,729)
Kruševac, Koševi bb, production business object	12,836	47,174	484	45,475	(1,699)
Niš, Bulevar 12. Februar bb, ancillary building-warehouse	2,062	42,088	510	40,573	(1,515)
Sokobanja, Sinex, production plant, field, 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, business buildings, production 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 buildings and land	10,584.2	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, building no. 1 PD2	106	24,892	179	21,393	(3,499)
Novi Sad, Bulevar oslobođenja 88, business premises 23	253	31,485	170	20,189	(11,296)
Reževići, Montenegro, a karst and a forest	1,363.20	19,954	168	19,846	(108)
Novi Sad, Bulevar oslobođenja 88, business premises 22	226	28,152	143	17,044	(11,108)
Aleksandrovo, Merošina, administrative building with land	8,527	15,211	275	14,663	(548)
Niš, Sjenička 1, business 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 bb, residential building	825.74	11,158	176	10,756	(402)
Novi Sad, Tihomira Ostojića 4, business premises 7	134	9,013	48	5,736	(3,277)
Lebane, Branka Radičevića 17, residential-bussines 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, business premises (5 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, residential building	434.58	4,692	46	4,523	(169)
Divčibare, category 5 field	8,012	4,270	96	4,193	(77)
Mokra Gora, house and fields	58,400	4,289	57	4,134	(155)
Kopaonik, house with land	337	4,235	41	4,083	(152)
Budva, Brdo Spas, category 4 forest	974	4,022	34	3,950	(72)
Novi Pazar, Ejupa Kurtagića 13, a 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)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

G1.2. Appraisals of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in 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 movables object worth in total RSD 96 thousand Parent Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

Komercijalna banka ad, Budva

Tangible assets acquired through collection of receivables in previous period:

Description	Area in м²	Value in RSD thousand	Acquisition Date
Danilovgrad – land and buildings	13,395	40	09.10.2007.
Sutomore – hotel and land	1,590	88,584	31.01.2009.
Budva – grassland and three family buidings	1,105	16,269	17.02.2009.
Petrovac – residential building and business premises	80	11,522	17.12.2009.
Podgorica – factory and land	8,214	37,148	28.12.2009.
Podgorica – business premises and land	5,209	37,524	28.12.2009.
Cetinje – garage and land	439	1,455	25.05.2010.
Podgorica– house and yard	883	25,579	31.07.2010.
Land, two ancillary buildings and house /pub - Danilovgrad	1,892	4,185	31.10.2011.
Podgorica – hotel	551	41,087	31.12.2011.
Podgorica – land and house	484	6,303	31.12.2011.
Bar – land, house and two ancillary buildings	1,507	3,794	28.02.2013.
Nikšić – meadow and unclassified roads	977	1,035	28.02.2013.
Budva – Perezića Do – land, business premises,three garages, four apartments	5,056	78,681	25.01.2014.
Budva – Buljarice land and business premises	9,791	26,502	25.01.2014.
Kotor – land, two family residential buildings and ancillary buildings	367	2,070	12.08.2014.
Podgorica land and building under construction	412	4,878	22.12.2014.
Bar – forest	3,569	57,019	29.12.2014.
Bar – business premises	385	22,844	24.03.2015.
TOTAL KB Budva (present value)		**466,519**	

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Komercijalna banka ad, Budva (continued)

For 20 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not accrued entry into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered nto possession as at 31 December 2017, amount to 466,519 thousand (EUR 3,937 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 78,333 thousand.

Estimated value of property acquired through collection of receivables:

Name of the property	Area in m²	Book value before revaluation In RSD thousand	Estimated value In EUR thousand	Estimated value In RSD thousand	Value difference in RSD thousand
Land, business premises, 3 garages and 4 apartments - Perazića Do	5,315	84,175	664	78,681	(5,494)
Land and business premises - Buljarice – Budva	9,791	58,763	224	26,502	(32,261)
Yard and a house Podgorici	883	33,735	216	25,579	(8,156)
Land and hotel- Sutomoru	1,590	94,897	748	88,584	(6,313)
Apartment and business premises- Petrovac	80	12,183	97	11,522	(661)
Grassland and three family residential buildings - Budva	1,105	17,060	137	16,269	(791)
Land and factory - Podgorica	8,214	42,513	314	37,148	(5,365)
Land and two business premises - Podgorica	5,209	38,440	317	37,524	(916)
Land and ancillary buildings - Danilovgrad	13,395	3,578	-	40	(3,538)
Land and garage - Cetinje	439	1,499	12	1,455	(44)
Land,two ancillary buildings and house/pub – Danilovgrad	1,892	4,533	35	4,185	(348)
Hotel - Podgorica	551	49,892	347	41,087	(8,805)
Land and house - Podgorica	484	7,341	53	6,303	(1,038)
Meadow and unclassified roads – Niksic	977	1,244	9	1,035	(209)
Land, house and two i ancillary buildings – Bar	1,507	3,961	32	3,794	(167)
Land, two family residential buildings and ancillary buildings - Kotor	396	3,080	17	2,070	(1,010)
Land and building under construction - Podgorica	412	5,063	41	4,878	(185)
Forest - Bar	3,569	57,282	481	57,019	(263)
Business premises - Bar	385	23,597	193	22,844	(753)
TOTAL		**542,836**	**3,937**	**466,519**	**(76,317)**

30. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE BALANCE OF SUCCESS FOR THE TRADE

In RSD thousand

	December 31, 2017	December 31, 2016
Liabilities based on changes in fair value - SWAP	7,845	-
TOTAL	**7,845**	**-**

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

Liabilities to banks and financial organizations are consist of:

In RSD thousand

	December 31, 2017	December 31, 2016
Demand deposits	**2,440,548**	**2,403,693**
Term deposits	**1,494,226**	**2,304,355**
Borrowings	**2,203,592**	**5,140,505**
Expenses deferred at the effective interest rate (deductible item)	**(20,681)**	**(45,031)**
Other	**20,091**	**18,997**
Balance at December 31	**6,137,776**	**9,822,519**

During 2017 foreign currency term deposits placed by banks were deposited at interest rate of 0.01% for CHF, and 0.00% - 5.00% 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.

In RSD thousand

	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**

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

By credit lines, the Parent Bank has contracted with certain creditors certain financial indicators. The methodology for calculating agreed financial indicators, by credit lines, differs from the calculation method of indicators in accordance with the regulations of the National Bank of Serbia in the part of the calculation of capital and includes items for determining the open credit exposure.

Based on the contracts concluded with, in the table above the mentioned foreign creditors, the Parent Bank is obliged to fulfill certain financial indicators until the final repayment of the liabilities for received loans.

In 2017, the parent bank repaid the EBRD credit line in the amount 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.

During 2017, based on the credit lines of GGF, Parent bank made an early repayment of the principal in the total amount of EUR 3,209 thousand, thus reducing the amount of the obligation to zero.

Breakdown of long-term borrowings of Komercijalna Banka a.d. Banja Luka included within the line item Liabilities due to banks:

		In RSD thousand
	December 31, 2017	**December 31, 2016**
EFSE fund	**71,083**	**148,167**
Balance as at December 31	**71,083**	**148,167**

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

Based on the agreement concluded with EFSE fund Komercijalna banka a.d. Banja Luka is obliged to meet certain financial ratios. On 31 December 2017, all agreed financial indicators were within acceptable limits.

32. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

In RSD thousand

	December 31, 2017	December 31, 2016
Corporate customers		
Demand deposits	62,522,169	83,299,184
Overnight and other deposits	10,673,102	12,169,858
Borrowings	6,560,037	9,384,129
Earmarked deposits	1,616,883	966,862
Deposits for loans approved	691,317	755,794
Interest payable, accrued interest liabilities and other financial liabilities	456,241	536,041
Retail customers		
Demand deposits	30,083,520	27,799,770
Savings deposits	31,717	33,055
Earmarked deposits	197,121,547	202,047,051
Deposits for loans approved	4,198,663	4,059,360
Interest payable, accrued interest liabilities and other financial liabilities	2,197,246	2,163,128
Other deposits	943,804	1,425,880
Corporate customers	481,502	495,847
Balance at December 31	**317,577,748**	**345,135,959**

Corporate customers deposit

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.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka’s interest rate ranges from 0.00% to 3.10% annually.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Budva's interest rate ranges from 0.00% to 0.01% annually.

Non-resident deposits in foreign currency in Parent bank are non-interest bearing deposits, except for specific business arrangements.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Budva is non-exhaustive.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.62%.

During 2017, short-term deposits of enterprises in dinars were deposited at an interest rate ranging from: reference interest rates minus 4.00 percentage points on deposits from three to fourteen days to the reference interest rate annually minus 1.00 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 2.20% annually with a minimum of RSD 300 thousand.

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

Corporate customers deposit (continued)

Shot-term corporate depositas denominated in foreign currencies are deposited with the interest rates between 0.0 % and 1.50%.

Long-term corporate deposits in RSD bear interent rate determined as NBS base rate minus 1.85 to 0.5 percentage points, and in foreign currencies from 0.50% ro 4.00% per annum.

Retail Customer Deposits

In the year 2017, Dinar's and senior savings deposits of the population were non-interest bearing. The foreign currency and senior savings deposits of the population are deposited at an interest rate from 0.0% to 0.01% annually for EUR or from -0.30% to 0.01% per annum for other currencies.

Short-term household deposits in dinars were deposited with interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 1.60% for EUR, and for other currencies ranging from -0.45% to 1.50% annually .

Long-term retail deposits in dinars were deposited with interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 2.0% for EUR and for other currencies ranging from -1.0% to 2.50% annually .

Within the framework of loan commitments, total liabilities are recognized in foreign loans to foreign legal entities that are defined as clients for the needs of the balance sheet.

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

In RSD thousand

	December 31, 2017	December 31, 2016
Long-term credit		
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 credit		
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 with German Development Bank (abbreviated: KfW), the Parent Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained.

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

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

	December 31, 2017	In RSD thousand December 31, 2016
European Investment Bank (EIB)	**291,950**	**403,490**
Government of Montenegro - Project 1000+	**50,441**	**111,887**
Development Fund of Montenegro	**123,681**	**69,167**
Balance at December 31	**466,072**	**584,544**

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

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

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

	December 31, 2016	In RSD thousand December 31, 2015
Investment-Development Bank	**814,487**	**764,751**
Balance at December 31	**814,487**	**764,751**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2037.

33. SUBORDINATED LIABILITIES

	December 31, 2017	In RSD thousand 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 Parent bank returned a subordinated loan as a whole - EUR 50,000 thousand.

34. PROVISIONS

Provisions relate to:

In RSD thousand

	December 31, 2017	December 31, 2016
Provisions for off-balance sheet items (Note 14)	171,582	493,492
Provisions for litigations (Note 37.4)	876,374	1,042,094
Provisions for employee benefits in accordance with IAS 19	503,927	485,921
Balance at December 31	**1,551,883**	**2,021,507**

Movements on the accounts of provisions are provided below:

In RSD thousand

	2017				2016			
	Provisions for Off- Balance Sheet Items (Note 14)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off- Balance Sheet Items (Note 14)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance January 1	493,492	1,042,094	485,921	2,021,507	575,406	1,204,790	432,532	2,212,728
Increase	338,553	191,029	34,144	563,726	701,750	488,424	80,943	1,271,117
Provisions against actuarial gains within equity	-	-	(25,699)	(25,699)	-	-	2,347	2,347
Release	(260,686)	(323,540)	(14,568)	(598,794)	-	(650,605)	(515)	(651,120)
Reversal of provision	(397,562)	(29,089)	(1,538)	(428,189)	(784,280)	(1,020)	(30,219)	(815,519)
Foreign exchange differences	(2,215)	(4,120)	(2,013)	(8,348)	616	505	833	1,954
Other	-	-	27,680	27,680	-	-	-	-
Balance at December 31	**171,582**	**876,374**	**503,927**	**1,551,883**	**493,492**	**1,042,094**	**485,921**	**2,021,507**

a) Provisions for litigations of Parent Bank

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

The most significant items relate to provisions under the arrangement with Intereksport ad, Belgrade (in bankruptcy) - under the covered letters of credit in 1991 in the amount of 321,599 thousand RSD (the total RSD equivalent refers to the part of the dispute against Intereksport ad Belgrade - in bankruptcy, in 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.

34. PROVISIONS (continued)

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments.

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

Parent Bank

	December 31, 2017	December 31, 2016
Discont 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.

Komercijalna Banka a.d., Budva

	December 31, 2017	December 31, 2016
Discount rate	3.00%	4.00%
Salary growth rate within the Bank	5.00%	4.50%
Employee turnover	6.00%	6.00%

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

Komercijalna Banka a.d., Banja Luka

	December 31, 2017	December 31, 2016
Discount rate	4.00%	5.00%
Salary growth rate within the Bank	1.00%	1.00%
Employee turnover	4.00%	3.00%

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

34. PROVISIONS (continued)

b) Provisions for employee benefits (continued)

KomBank INVEST a.d., Beograd

	December 31, 2017	December 31, 2016
Discount rate	4.50%	5.00%
Salary growth rate within the Bank	8.00%	7.00%
Employee turnover	5.00%	5.00%

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

35. OTHER LIABILITIES

Other liabilities include:

In RSD thousand

	December 31, 2017	December 31, 2016
Accounts payable	435,448	311,749
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	76,450	303,811
Advances received	89,167	66,815
Accrued interest, fees and commissions	163,311	122,932
Accrued liabilities and other accruals	551,441	462,269
Liabilities in settlement	3,077,788	2,028,191
Dividend payment liabilities	2,507,577	2,490,770
Taxes and contributions payable	30,125	97,306
Other liabilities	798,243	430,486
Balance as at December 31	**7,729,550**	**6,314,329**

Liabilities in settlement totaling RSD 3,077,788 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 947,782 thousand, liabilities related to buying and selling foreign currencys 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 Parent bank's 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.

36. EQUITY

36.1 Equity is comprised of:

In RSD thousand

	December 31 2017	December 31 2016
Share capital	17,191,527	17,191,529
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	14,439,525	19,320,511
Revaluation reserves	5,934,564	6,439,985
Retained earnings	8,357,094	545,985
Loss for the period	(1,665,678)	(7,048,674)
Balance as at December 31	**67,100,116**	**59,292,420**

Capital structure

In RSD thousand

	December 31, 2017			December 31, 2016		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	61	17,191,527	17,191,466	63	17,191,529
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**61**	**40,034,611**	**40,034,550**	**63**	**40,034,613**
Retained earnings	8,357,092	**2**	8,357,094	**545,985**	**-**	**545,985**
Loss for the period	**(1,665,678)**	**-**	**(1,665,678)**	**(7,048,674)**	**-**	**(7,048,674)**
Reserves from profit and other reserves	14,439,523	2	14,439,525	19,320,508	3	19,320,511
Revaluation reserves	4,385,025	-	4,385,025	4,579,456	-	4,579,456
Revaluation reserves (debit balance)	(109,194)	-	(109,194)	(67,159)	-	(67,159)
Translational reserves (Note 36.3)	1,658,733	-	1,658,733	1,927,688	-	1,927,688
Reserves	**20,374,087**	**2**	**20,374,089**	**25,760,493**	**3**	**25,760,496**
Capital	**67,100,051**	**65**	**67,100,116**	**59,292,354**	**66**	**59,292,420**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of December 31, 2017 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

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December 31, 2017

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

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

Share Type	December 31 2017	Number of shares 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 Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2017 was as follows:

Shareholder	Number of shares	% share
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
East Capital (lux)-Balkan Fund	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**

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

The structure of the Bank's shareholders with preferred shares at December 31, 2017 was as follows:

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

Revaluation reserves totaling RSD 5,934,564 thousand (2016: RSD 6,439,985 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,047,254 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,138,992 thousand, actuarial gains of RSD 89,585 thousand and translational reserves in the amount of RSD 1,658,733 thousand.

The dividend payout for priority shares according to the Annual Account for 2017, based on the interest rate on savings deposits in RSD, which is twelve months, amounts to 13,222 thousand RSD.

36.2. 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
Profit minus preferred dividends (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 loss 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) loss 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.

36. EQUITY (continued)

36.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD thousand

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total (Note 36.1)
Balance as at January 1, 2016	**1,720,563**	**60,562**	**58,855**	**1,839,980**
Increase	107,191	(16,262)	(3,221)	87,708
Balance as at December 31, 2016	1,827,754	44,300	55,634	1,927,688
Increase	(290,273)	25,015	(3,697)	(268,955)
Balance as at December 31, 2017	**1,537,481**	**69,315**	**51,937**	**1,658,733**

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD thousand

	December 31, 2017	December 31, 2016
Operations on behalf and for the account of third parties	4,278,704	4,466,969
Taken-over future liabilities	37,815,296	35,025,089
Derivatives intended for trading under the contract currency	592,364	-
Other off-balance sheet items	464,660,032	512,478,491
Total	**507,346,396**	**551,970,549**

37.1 Guarantees and letters of credit

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

In RSD thousand

	December 31, 2017	December 31, 2016
Payment guarantees (Note 4.1.1.)	4,021,866	4,336,212
Performance guarantees (Note 4.1.1.)	4,802,696	6,950,946
Letters of credit	104,330	84,143
Balance as at December 31	**8,928,892**	**11,371,301**

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).

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

37.2 Structure of commitments is provided below:

		In RSD thousand
	December 31, 2017	**December 31, 2016**
Unused portion of approved payment and credit card loan facilities and overdrafts	10,191,551	9,430,627
Irrevocable commitments for undrawn loans	17,539,762	12,232,330
Other irrevocable commitments	1,155,091	1,168,323
Other commitments per contracted value of securities	-	822,508
Balance as at December 31	**28,886,404**	**23,653,788**

Undisbursed overdraft credit cards include internal relationship based on business cards of KomBank INVEST with Parent Bank in the amount of RSD 200 thousand.

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

Operations on behalf and for the account of third parties in the total amount of RSD 4,278,704 thousand consist mostly of funds from the commission credits for the repayment of housing loans in the amount of RSD 3,513,622 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 292,102 thousand loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 464,660,032 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 155,362,509 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 78,012,427 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 112,322,129 thousand, repo placements in government securities in the amount of RSD 15,000,000 thousand the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 20,396,489 thousand (Guidelines for the application of IAS 39) and the amount of the accounting write-off of credit claims under the NBS Decision on accounting write-off balance assets in the amount of RSD 11,366,167 thousand.

The parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent banka does not bear the credit risk.

37.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2017, the management made provisions for potential losses in litigations in the amount of RSD 876,374 thousand (Note 34).

As at 31 December 2017, contingent liabilities - the basis of the claim against the members of the Group, were estimated at the amount of RSD 2,337,382 thousand (for 630 active items).

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 40,984,529 thousand (for 1,341 items of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

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

37.5 Commitments for operating lease liabilities are provided below:

In thousands of RSD

	December 31 2017	December 31 2016
Commitments due within one year	449,654	506,941
Commitments due in the period from 1 to 5 years	1,058,330	1,121,854
Commitments due in the period longer than 5 years	123,179	156,006
Total	**1,631,163**	**1,784,801**

37.6 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

During 2017, Parent banka, Komercijalna banka a.d. Budva and Kombank INVEST a.d. Belgrade did not have tax controls.

In the course of 2017, two tax controls of Komercijalna Banka a.d. Banja Luka.

38. RELATED PARTY DISCLOSURES

The Republic of Serbia owns 41.74% of the ordinary shares of the Parent Bank and EBRD, London, which owns 24.43% of the ordinary shares of theParent bank. The parent bank has three dependent legal entities: Komercijalna banka ad, Budva, Komercijalna banka ad, Banja Luka and KomBank Invest ad, Belgrade.

Legal entities and individuals are regarded as affiliated persons if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related persons are also those persons who are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions transactions and other banking transactions.

Consolidated transactions with dependent entities are shown in Note 6.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

38. RELATED PARTY DISCLOSURES (continued)

38.1 Loans and receivables from related parties

In thousands of RSD

	2017.			2016.		
Placement	**On-balance**	**Off-balance**	**Total**	**On-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 doo UŽICE	-	-	-	1	-	1
ZLATIBORSKI KATUN BEOGRAD	-	-	-	1	-	1
Cedens company	29	63	92	-	-	-
Private individuals	155,978	14,338	170,316	460,580	67,428	528,008
Total	**156,007**	**14,401**	**170,408**	**460,932**	**73,428**	**534,360**
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 SR Elektron, Zrenjanin	-	-	-	21	-	21
Goran Damnjanović, MARVIN+AZAMIT KRUŠEVAC	-	-	-	7	-	7
MM Enegro 2010 d.o.o. Užice	-	-	-	800	-	800
ZLATIBORSKI KATUN BEOGRAD	-	-	-	16	-	16
EBRD (Note 31)	-	2,145,943	2,145,943	-	4,586,114	4,586,114
International Finance Corporation (Note 33)	-	-	-	-	6,173,615	6,173,615
Reprezent doo	12	-	12	-	-	-
Bolero ZR	8	-	8	-	-	-
Cedens company	2,364	-	2,364	-	-	-
Private individuals	113,841	-	113,841	505,350	-	505,350
Total	**116,414**	**2,145,943**	**2,262,357**	**511,580**	**10,759,729**	**11,271,309**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

38. RELATED PARTY DISCLOSURES (continued)

38.2 Income and expenses from related parties

In thousands of RSD

	2017.		
	Interests	**Fees**	**Total**
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija	-	8	8
Private individuals	7,628	1,540	9,168
Total Income	**7,638**	**1,710**	**9,348**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Private individuals	394	512	906
Total Expenses	**384,868**	**5,644**	**390,512**
Net Expenses	**(377,230)**	**(3,934)**	**(381,164)**

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

38. RELATED PARTY DISCLOSURES (continued)

38.3 Gross and net remunerations

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

In thousands of RSD

	December 31 2017.	December 31 2016.
Gross remunerations		
Executive Board	143,026	207,762
Net remunerations		
Executive Board	109,096	169,685
Gross remunerations		
Board of Directors and Audit Committee	39,724	46,455
Net remunerations		
Board of Directors and Audit Committee	24,457	29,263

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDENDS

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual census conducted on December 31, 2017, the ParentBank has non-compliant statements of open items for 24 clients with the stated reason for the denial 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 four clients, the non-compliant amounts relate to off-balance sheet items of irrevocable liabilities for unexpired loans, denial of the amounts shown in the letter of intent, disputed balance on individual batches of guarantees as of December 31, in the total amount of 9,035 thousand dinars.

Four clients disputed the 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 Parent bank is in a continuous process of harmonization of the disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad, Banja Luka has five non-compliant statements of open items in the amount of RSD 158 thousand.

Komercijalna banka ad, Budva has two non-compliant statements of open items in the amount of RSD 77 thousand.

Unrealized dividends

Unrealized dividend payments for the year 2017 amounted to (Note 35):

- 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 ordinary shares and RSD 28,686 thousand for priority shares.
- 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 contingent liabilities for payment of priority dividends based on the calculation for 2017 amount to RSD 13,222 thousand.

40. 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.

41. EXCHANGE RATES

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

	NBS official exchange rate		NBS average exchange rate	
	2017	2016	2017	2016
USD	99.1155	117.1353	-	-
EUR	118.4727	123.4723	121.4027	123.1015
CHF	101.2847	114.8473	-	-
BAM	60.5741	63.1304	62.0722	62.9408

In Belgrade, March 15, 2018

Signed on behalf of Komercijalna banka ad, Beograd:

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

KOMERCIJALNA BANKA A.D., BEOGRAD

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

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Building a better
working world

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This is an English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Report on Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing as applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Building a better working world

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Group. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual consolidated financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual consolidated financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the consolidated financial statements of the Group for the year ended 31 December 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

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

	Note	2017	2016
Interest income	3c; 8	15,358,399	17,934,819
Interest expenses	3c; 8	(1,841,161)	(3,478,486)
Net interest income		**13,517,238**	**14,456,333**
Fee and commission income	3d; 9	7,159,507	6,643,289
Fee and commission expenses	3d; 9	(1,745,906)	(1,549,766)
Net fee and commission income		**5,413,601**	**5,093,523**
Net gains on the financial assets held for trading	3e; 10	108,900	76,323
Net gains on the financial assets available for sale	11	55,243	194,568
Net foreign exchange gains and positive currency clause effects	3b; 12	-	6,076
Net foreign exchange losses and negative currency clause effects	3b; 12	(77,402)	-
Net gains on investments in associates and joint ventures	13	306	5,143
Other operating income	3g; 3t; 13	980,341	607,976
Net income from reduction in impairment of financial assets and credit risk-weighted off-balance sheet items	14	36,342	-
Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	14	-	(13,079,497)
Total operating income		**20,034,569**	**7,360,445**
Staff costs	3u; 15	(5,130,812)	(5,059,469)
Depreciation and amortization charge	3n; 16	(625,680)	(729,726)
Other expenses	17	(6,961,694)	(8,104,936)
Profit / (Loss) before taxes		**7,316,383**	**(6,533,686)**
Current income tax expense	3i; 18	(9,381)	(21,318)
Gains on created deferred tax assets and decrease in deferred tax liabilities	3i; 18	1,366,704	315,718
Losses decrease in deferred tax assets and created deferred tax liabilities	3i; 18	(405,710)	(1,844)
Profit / (Loss) for the year		**8,267,996**	**(6,241,130)**
Profit / (Loss) which belongs to the parent entity		**8,267,995**	**(6,241,130)**
Profit / (Loss) which belongs to owners without the right of control		1	-
Earnings per share			
Basic earnings per share (in RSD)	3x;36.2	482	(480)
Diluted earnings per share (in RSD)	3x;36.2	482	(480)

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

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

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

	Note	2017	2016
Profit / (Loss) for the year		8,267,996	(6,241,130)
Other comprehensive income			
Increase in revaluation reserves arising from intangible investments and fixed assets	36	-	178,371
Actuarial gains	34;36	25,985	1,665
Actuarial losses	34;36	(286)	(4,011)
Net increase from the fair value adjustment of financial assets available for sale	36.3	100,482	683,461
Unrealized losses on securities available for sale	36.3	(287,757)	(60,257)
Cumulative foreign exchange gains on translation of foreign operations	36	-	87,708
Cumulative foreign exchange losses on translation of foreign operations	36	(268,955)	-
Tax gains pertaining to other comprehensive income of the period	36	39,811	2,386
Tax losses pertaining to other comprehensive income of the period	36	(86,678)	(116,050)
Total comprehensive income for the year		-	773,273
Total comprehensive loss for the year		(477,398)	-
Total profit for period		7,790,598	-
Total loss for period		-	(5,467,857)
Profit/(Loss) which belongs to the parent entity		7,790,597	(5,467,857)
Profit /(Loss) which belongs to owners without the right of control		1	-

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

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

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД • БЕОГРАД

Miroslav Perić
Member of the Executive Board

Slađana Jelić
Deputy Chief Executive Officer

CONSOLIDATED 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	3k; 19	56,076,748	61,919,102
Financial assets at fair value through profit and loss, held for trading	3l; 20	5,424,642	247,862
Financial assets available for sale	3n; 21	116,097,938	139,808,210
Financial assets held to maturity	3n; 22	-	368,999
Loans and receivables due from banks and other financial institutions	3m; 23	30,233,555	43,216,681
Loans and receivables due from customers	3m; 24	174,242,139	166,401,008
Intangible assets	3p; 25	498,387	394,546
Property, plant and equipment	3o; 26	6,017,200	6,251,187
Investment property	3q; 27	2,380,564	2,608,051
Current tax assets	18	5,622	7,283
Deferred tax assets	18	863,527	-
Non-current assets held for sale and assets from discontinued operations	28	787,618	349,523
Other Assets	3n; 29	7,480,376	7,255,156
TOTAL ASSETS		**400,108,316**	**428,827,608**
LIABILITIES AND EQUITY			
Financial liabilities per fer value thru income statement ment for sale	3l; 30	7,845	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	3t; 31	6,137,776	9,822,519
Deposits and other liabilities due to customers	3t; 32	317,577,748	345,135,959
Subordinated debt	3t; 33	-	6,178,390
Provisions	3u; 34	1,551,883	2,021,507
Current tax liabilities	18	1,751	9,027
Deferred tax liabilities	18	1,647	53,457
Other liabilities	35	7,729,550	6,314,329
TOTAL LIABILITIES		**333,008,200**	**369,535,188**
Equity			
Issued (share) capital	3x; 36	40,034,550	40,034,550
Profit	36	8,357,092	545,985
Loss	36	(1,665,678)	(7,048,674)
Reserves	3x; 36	20,374,087	25,760,493
Non-controlling interest	3x; 36	65	66
Total equity attributable to the majority owners of the bank		**67,100,116**	**59,292,420**
TOTAL LIABILITIES AND EQUITY		**400,108,316**	**428,827,608**

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2017 to December 31, 2017
(Thousands of RSD)

	Issued Capital (Note 36)	Share Premium (Note 36)	Reserves from Profit and Other Reserve (Note 36)	Revaluation reserves (Note 36)	Retained Earnings/ Accumulated Losses (Note 36)	Total attibutable to equity holders of the parent (Note 36)	Non controlling interest (Note 36)	Total (Note 36)
Balance at January 1, 2017	17,191,466	22,843,084	19,320,506	6,439,987	(6,502,689)	59,292,354	66	59,292,420
Profit for the year	-	-	-	-	8,267,996	8,267,995	1	8,267,996
Other comprehensive income for the year. net of income tax								
Net decrease based on the change in the fair value of securities available-for-sale and foreign exchange difference on intercompany transactions	-	-	-	(456,230)	-	(456,230)	-	(456,230)
Actuarial gains/(losses)	-	-	-	25,699	-	25,699	-	25,699
Tax effects on other comprehensive income	-	-	-	(46,867)	-	(46,867)	-	(46,867)
Other comprehensive income for the year, net of tax	-	-	-	(477,398)	-	(477,398)	-	(477,398)
Total comprehensive income for the year	-	-	-	(477,398)	8,267,996	7,790,597	1	7,790,598
Transfer from reserves to profit and coverage of loss for 2016	-	-	(4,859,578)	-	4,859,576	-	2	-
Liabilities for dividends	-	-	-	-	(16,808)	(16,808)	-	(16,808)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	-	(28,022)	19,881	(8,140)	-	(8,140)
Other increases/ (decreases)	-	-	(21,408)	-	63,458	42,050	-	42,050
Balance at December 31, 2017	17,191,466	22,843,084	14,439,520	5,934,567	6,691,414	67,100,051	65	67,100,116

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2016 to December 31, 2016
(Thousands of RSD)

	Issued Capita(Note 36)	Share Premium (Note 36)	Reserves from Profit and Other Reserve(Note 36)	Revaluation reserves (Note 36)	Retained Earnings/ Accumulated Losses (Note 36)	Total attibutable to equity holders of the parent (Note 36)	Non controlling interest (Note 36)	Total (Note 36)
Balance at January 1, 2016	17,191,466	22,843,084	25,737,155	5,688,871	(6,766,239)	64,694,337	65	64,694,402
Loss for the year	-	-	-	-	(6,241,130)	(6,241,131)	-	(6,241,130)
Other comprehensive income for the year, net of income tax								
Decrease in revaluation reserves from property, plant and equipment	-	-	-	178,371	-	178,371	-	178,371
Net increase based on the change in the fair value of securities available-for-sale and foreign exchange difference on intercompany transactions	-	-	-	710,912	-	710,912	-	710,912
Actuarial gains/(losses)	-	-	-	(2,346)	-	(2,346)	-	(2,346)
Tax effects on other comprehensive income	-	-	-	(113,664)	-	(113,664)	-	(113,664)
Other comprehensive income for the year, net of tax	-	-	-	773,273	-	773,273	-	773,273
Total comprehensive income for the year	-	-	-	773,273	(6,241,130)	(5,467,857)	-	(5,467,857)
Transfer from reserves to profit and coverage of loss for 2015	-	-	(6,428,819)	-	6.428,819	-	-	
Liabilities for dividends	-	-	-	-	(23,531)	(23,531)	-	(23,531)
Employee share in profit	-	-	-	-	-	-	-	-
Gains realized from the revaluation reserves (effect of depreciation	-	-	-	(23,663)	-	(23,663)	-	(23,663)
Other increases/ (decreases)	-	-	12,170	1,506	99,392	113,068	1	113,069
Balance at December 31, 2016	17,191,466	22,843,084	19,320,506	6,439,987	(6,502,689)	59,292,354	66	59,292,420

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

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

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

Miroslav Perić
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Slađana Jelić
Deputy Chief Executive Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2017 to December 31, 2017
(Thousands of RSD)

	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**25,477,618**	**25,910,395**
Interest	16,831,503	18,999,073
Fee and commission	7,130,230	6,645,894
Other operating income	1,506,720	249,716
Dividends and profit sharing	9,165	15,712
Cash outflows from operating activities	**(16,078,175)**	**(17,780,872)**
Interest	(2,330,310)	(4,611,405)
Fee and commission	(1,732,233)	(1,548,563)
Payments to, and on behalf of employees	(5,319,334)	(4,975,861)
Taxes, contributions and other duties paid	(952,230)	(850,525)
Other operating expenses	(5,744,068)	(5,794,518)
Net cash inflows from operating activities prior to changes in loans and deposits	**9,399,443**	**8,129,523**
Decrease in loans and increase in deposits received and other liabilities	**9,116,184**	**39,021,996**
Decrease in financial assets that are initially recognized at fair value through profit and loss, financial assets held for trading and other securities not intended for investment	9,116,184	12,160,679
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	-	26,861,317
Increase in loans and decrease in deposits received and other liabilities	**(19,762,558)**	**(15,888,347)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(9,158,441)	(15,888,347)
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	(10,604,117)	-
Net cash generated by operating activities before income taxes	-	**31,263,172**
Net cash outflows from operating activities before income taxes	**(1,246,931)**	-
Income taxes paid	(15,211)	(32,936)
Dividends paid	-	(119,477)
Net cash generated by operating activities	-	**31,110,759**
Net cash outflows from operating activities	**(1,262,142)**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2017 to December 31, 2017
(Thousands of RSD)

B. CASH FLOW FROM INVESTING ACTIVITIES	2017	2016
Cash generated by ivesting activities	**55,015,287**	**40,753,985**
Proceeds from investment securities	54,892,983	40,739,298
Proceeds from the sales of intangible assets, property, plant and equipment	3,422	1,092
Proceeds from sales of investment properties	118,882	13,595
Cash used in investing activities	**(52,116,437)**	**(58,443,427)**
Cash used for investment securities	(51,604,856)	(57,848,368)
Cash used for the purchases of intangible assets, property, plant and equipment	(511,581)	(595,059)
Net cash inflows from investing activities	**2,898,850**	-
Net cash outflows from investing activities	-	**(17,689,442)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**88,053,291**	**124,293,315**
Inflows from the borrowings	88,053,291	124,293,315
Cash used in financing activities	**(99,385,677)**	**(136,856,025)**
Cash used in the repayment of subordinated debts	(5,923,635)	-
Cash used in the repayment of borrowings	(93,462,042)	(136,856,025)
Net cash outflows from financing activities	(11,332,386)	(12,562,710)
TOTAL CASH INFLOWS	177,662,380	229,979,691
TOTAL CASH OUTFLOWS	(187,358,058)	(229,121,084)
NET CASH INCREASE	-	**858,607**
NET CASH DECREASED	**(9,695,678)**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**39,661,743**	**38,666,685**
FOREIGN EXCHANGE GAINS	843,573	963,271
FOREIGN EXCHANGE LOSSES	(1,851,989)	(826,820)
CASH AND CASH EQUIVALENTS, END OF YEAR	**28,957,649**	**39,661,743**

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

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

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД • БЕОГРАД

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka ad, Belgrade (hereinafter "The Parent Bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991. The tax identification number of the Parent Bank is 100001931.

The largest share in the controlling activities of the parent banks is:

Republic of Serbia	41.74%
EBRD, London	24.43%

The parent bank has three dependent legal entities with ownership:

- 100% - Komercijalna banka ad, Budva, Montenegro
- 100% - Investment Management Company KomBank INVEST ad, Belgrade, Serbia
- 99.998% - Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad, Banja Luka, with 0.002% is the Agency for Export, Insurance and Financing of the Republic of Serbia.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka AD, Budva, Komercijalna Banka ad, Banja Luka and KomBank INVEST ad Investment Company, Belgrade (in further text: "Group").

Komercijalna banka ad, Budva was founded in November 2002 as an affiliate of Komercijalna banka ad, Belgrade and registered in the central registry of the Commercial Court in Podgorica on March 6, 2003. The registration number of Komercijalna banka ad, Budva is 02373262.

Komercijalna banka AD, Banja Luka was established in September 2006 and on September 15, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka. The registration number of Komercijalna banka ad, Banja Luka is 11009778.

Investment Management Company KomBank INVEST ad, Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758.

The Group's activities include credit, deposit and guarantee operations and payment transactions in the country and abroad in accordance with the Banking Law, as well as investment fund management activities. The Group is obliged to operate according to the principles of liquidity, safety and profitability.

On December 31, 2017, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Budva in Budva - PC Podkosljun bb; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Veselina Maslese street no. 6; the head office of the Investment Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 11 business centers, 13 branches and 220 branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2016: 34 branches and 228 branches).

As at 31 December 2017, the Group had 3,106 employees, and on December 31, 2016, 3,152 employees.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for compiling and presenting consolidated financial statements

The Group's consolidated financial statements for 2017 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 71/2014 and 135/2014).

Consolidated financial statements have been prepared in accordance with the historical cost principle, unless otherwise stated in the accounting policies set out below.

In preparing these financial statements, the parent bank applied the accounting policies set out in Note 3.

During 2017, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

For the purpose of preparing consolidated financial statements, individual financial statements of subsidiary banks have been adapted to the presentation of financial statements based on the accounting regulations of the Republic of Serbia.

The consolidated financial statements of the Group are expressed in thousands of RSD. Dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are quoted in RSD and rounded up in thousands.

Functional currencies of the EUR from the financial statements of Komercijalna banka AD, Budva and BAM from the financial statements of Komercijalna banka ad, Banja Luka are converted into the reporting currency, ie the functional currency of the Parent bank - dinar (RSD) on the basis of the official published rates in the Republic of Serbia.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS

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 members of the Group 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 Group.

- **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 Group.

- 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 Group'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 FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS

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 Group'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 Group'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 Group's financial statements

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF 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 Group'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 Group'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 Group's financial statements

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF 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 Group'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 Group'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 Group's financial statements.

- **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 Group'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 Group'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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

- ***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 Group'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 Group'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 Group set up a project to implement IFRS 9 which is lead by the deputy Chief Executive Officer competent for risk. During the Project, the Group 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. The Group 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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

IFRS 9 "Financial Instruments" (continued)

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.
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.

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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

IFRS 9 "Financial Instruments" (continued)

The Group 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 Group 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 Groupdoes 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:

- 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 Group's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Group 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 Group 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 Group 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.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

IFRS 9 "Financial Instruments" (continued)

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 Group 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.

Segment 3

As in accordance with IAS 39, financial instruments are included 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 Group 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 Group 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 1.29 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 Group is still in the process of finalizing standard implementation.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF FINANCIAL STATEMENTS (continued)

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

IFRS 9 "Financial Instruments" (continued)

The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings account. The Group will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Group 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 have been prepared in accordance with the going concern principle, which implies that the Group will continue to operate in an unlimited period in the foreseeable future.

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

The accounting policies set forth below by the Group members consistently apply at all times presented in these financial statements.

(a) Consolidation

The parent bank has control over the following legal entities, the consolidation of which has been made in these financial statements:

Legal entity	Share in capital
Komercijalna banka ad, Budva, Montenegro	100.00%
Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina	99.99%
Investment Management Company KomBank Invest a.d., Belgrade	100.00%

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been reclassified using the average exchange rate in the Republic of Serbia for 2017 of 121,4027 for one EUR and 62,0722 for one BAM and other consolidated financial statements (balance sheet, report on the rest of the result and statement of changes in equity) by applying the closing exchange rate on the balance sheet date of 118.4727 for one EUR or 60.5741 for one BAM.

(b) Conversion of foreign exchange amounts

Business changes in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business change.

Monetary positions in foreign currency assets and liabilities, which are stated at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the income statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business change.

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, were the following:

		In RSD
	2017	2016.
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	114.8473
BAM	60.5741	63.1304

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense is recognized in the income statement using the effective interest rate method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, Group members estimate future cash flows taking into account all contractual terms relating to a financial instrument, but not future losses that may arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Interest income and expense included in the overall result report include:

- Interest calculated for financial assets and financial liabilities valued at amortized cost using the effective interest rate; and
- Interest on the basis of investment securities available for sale

Interest income and expense for all assets and liabilities traded is considered to be incidental to the trading activities of the Group's members and are presented together with all other changes in the fair value of assets and liabilities traded under net trading income.

(d) Fees and commissions

Fee and commission income and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate.

Other income from fees and commissions is recorded at the moment of providing services. Fee and commission income includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services.

Other fees and commissions are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

(e) Net trading income

Net trading income includes gains less losses due to trading in assets and liabilities, including all realized and unrealized changes in fair value and foreign exchange gains.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss relates to financial assets and liabilities at fair value through profit and loss and include all realized and unrealized changes in their fair value.

(g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are shown in the position of other income.

(h) Operational and financial leasing

All payments made during the year under operating lease are recorded as an expense in the income statement equally straightforward over the lease term. Approved leasing incentives are recognized within the total cost of leasing during the lease period.

The minimum lease rate for a financial lease is allocated between the financial costs and the reduction of the remaining amount of the financial lease obligation. Financial expenses are divided into all periods during the lease period, giving a uniform periodic interest rate for the remaining amount of the lease obligation.

(i) Tax expense

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the income statement except to the extent that they relate to items that are recognized directly within the capital or within the overall result.

(I) Current income tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

(II) Deferred taxes

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

i) Tax Expenditures (continued)

(II) Deferred taxes (continued)

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net 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 the amount of deferred tax liabilities or assets.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that can be transferred to subsequent fiscal periods to the extent that there is likely to be a taxable profit from which tax loss is transferred and loans can be reduced. Deferred tax assets are subject to an analysis at the end of each reporting period and are adjusted to the extent that it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(III) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, the Group members pay different taxes and contributions, value added tax, capital gains tax and earnings contributions. These expenditures are included in "Other Business Expenses".

(j) Financial assets and liabilities

(I) Recognition

Members of the Group perform initial recognition of placements, deposits, loans and subordinated liabilities when they are placed or received. All other financial assets and liabilities are initially recognized at the date when the Group enters into a contractual relationship in accordance with the terms of a given financial instrument.

An initial valuation of financial assets or financial liabilities is carried at fair value plus items that are not carried at fair value through profit and loss account, for transaction costs that can be directly attributed to their purchase or issue.

(II) Classification

Group members classify financial assets into the following categories: financial assets for trade, loans and receivables and investment securities. See accounting policies 3 (k), 3 (l) and 3 (lj).

Members of the Group evaluate their financial liabilities at amortized cost or classify them as liabilities held for trading. More details are given in the section on accounting policies.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(III) Termination of recognition

Members of the Group cease to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when a member of the Group transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that a Group member has created or retained is recognized as a separate asset or liability in the balance sheet. Upon termination of the recognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collect the received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the income statement.

A member of the Group carries out transactions by which he transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset.The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which a member of the Group neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, a member of the Group continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. A member of the Group shall execute the obligation when the obligation is settled, terminated or transferred to another.

(IV) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Group has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a group of similar transactions, such as transactions held by the Group's members in trading.

(V) Valuation at amortized cost

The depreciated value of a financial asset or liability is the amount by which the assets or liabilities are initially valued, net of principal repayments, plus or decreased by accumulated depreciation using the effective interest rate method on the difference between the initial value and the nominal value on the maturity date of the instrument, less impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(VI) Valuation at fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the parties involved, willing parties in a transaction under market conditions.

Whenever possible, the Group members measure fair value using market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions under market conditions.

In the event that the market for financial instruments is not active, members of the Group determine fair value using the estimation methodology. Estimation methodologies include transactions on market terms between the involved parties, willing parties (if available), reference to the existing fair value of other instruments that are substantially the same, discounted cash flow analysis and other alternative methods. The selected assessment methodology maximizes the use of market data and it is based on the least possible extent on estimates that are specific to the member of the Group, it includes all factors considered by the market participants as determining for the price, and in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. A member of the Group adjusts estimation methods and tests their accuracy by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price realized in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (ie without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the particular facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-determinable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when transferring or alienating them, or when the fair value becomes apparent. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of a Group member and another counterparty, where relevant. Estimates of fair values based on valuation models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that a member of the Group considers that third parties in the market can take them into account when determining the transaction price.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(VII) Identification and evaluation of impairment

On the balance sheet date, the Group's members assess whether there is objective evidence of the impairment of financial assets that are not recorded at fair value through profit and loss. A financial asset or group of financial assets is considered impaired when the evidence indicates the occurrence of the loss event after the initial recognition of the asset, and that the event of loss affects future cash flows related to the asset that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can consist of significant financial difficulties of the debtor or issuer, failure to fulfill or breach of the debtor's contractual obligations, refinancing of the loan by the bank in a manner that the bank would otherwise not take into consideration, an indication to initiate bankruptcy proceedings against a debtor or issuer, the disappearance of an active securities market, or other noticeable data relating to a group of assets, such as unfavourable changes in the credit status of the debtor or issuer within the group, or economic conditions that correspond to violations of obligations within the Group. Furthermore, for investments in equity securities, a significant or continuous decrease in their fair value below their cost is an objective evidence of impairment.

A member of the Group considers evidence of impairment of placements, as well as securities held to maturity, both at the level of the individual asset and at the group level. All individually significant loans, as well as securities held to maturity are assessed individually for impairment. All individually significant loans, as well as securities held to maturity that are found not individually impaired, are group assessed for the impairment that was incurred but not identified. Loans and securities held to maturity that are not individually significant are grouped into impairment by grouping loans and securities held to maturity by similar characteristics.

In assessing group impairment, a Group member uses statistical models of historical developments in the likelihood that there will be a breach of the obligation, the time required for the return, and the amount of the resulting loss, corrected for the management's assessment of whether the current economic and credit conditions are such that the actual losses may be larger or smaller than those indicated by historical models. The rate of default, the loss rate and the expected time of future return are regularly compared with the actual results to determine whether they are appropriate.

Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are reflected in the provision for loan loss provisions. When events after the balance sheet date affect the amount of the impairment loss, such a loss reduction due to impairment is reversed through the income statement. Impairment losses on available-for-sale securities are recognized by transferring the aggregate amount of the recognized loss to the other comprehensive income in the income statement. The aggregate loss that is transferred from the rest of the total result to the income statement is the difference between the purchase price minus the amount of the repaid principal and depreciation and the current fair value less impairment losses previously recognized in the income statement. Changes in provisions for impairment losses attributable to the time value are included as a component of the interest rate.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) Financial assets and liabilities (continued)

(VII) Identification and evaluation of impairment (continued)

If the fair value of impaired debt securities available for sale increases in the future period and the increase can be objectively attributed to the event that occurred after the recognition of the loss due to impairment in the income statement, then the impairment loss is reversed and the reversed amount is recognized in the balance sheet success. However, the subsequent recovery of the fair value of impaired equity securities available for sale is recognized within the rest of the overall result.

The Group members write off certain loans, placements and securities for which it is determined that they will not be collected (see note 4).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, used by the members of the Short-Term Liquidity Management Group.

Cash is carried at amortized cost in the balance sheet.

(l) Assets and liabilities held for trading

Assets and liabilities held for trading represent the assets and liabilities that the Group members are purchasing or originally intended to sell or repurchase in the near future, or which member of the Group holds within a portfolio that is uniquely managed for the purpose of short-term profit or the positioning of a position.

Assets and liabilities held for trading are initially recognized and subsequently measured at fair value in the balance sheet, with transaction costs recognized directly in the income statement. All changes in fair value are recognized in the net income from trading in the income statement. Assets and liabilities held for trading are not reclassified after their initial recognition, except that non-derivative assets held for trading, other than those designated at fair value through profit and loss at initial recognition, may be reclassified from the trading category, if they no longer comply with the objective sale or re-purchase in the near future, and if the following conditions are met:

- If a financial asset meets the definition of placements and receivables (if the financial asset did not have to be classified as held for trading on initial recognition), then it can be reclassified from the trading category only if the legal entity has the intention and the ability to hold a financial asset in the forward future or until it's due.
- If the financial asset does not meet the definition of placements and receivables, then it can be reclassified from a trading category, but only in rare cases.

Derivatives

Financial derivatives include forward and swap transactions. Financial derivatives are initially recognized at cost and subsequently translated at market value. Market values are derived from various valuation techniques, including discounting cash flows. Financial derivatives are accounted for in assets within the assets if their market value is positive, that is within the liabilities if their market value is negative. Changes in the market value of financial derivatives are recorded in the income statement, within the net trading income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) 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 which members of the Group do not intend to sell in the short term. Loans and receivables arise when a bank deposits money or services to a debtor without the intention of further trading in these placements. Loans and receivables include placements to banks and placements to customers. Loans and receivables are initially valued at cost plus increased transaction costs. After initial recognition, loans and receivables are valued at amortized cost using the effective interest rate method.

Loans approved in RSD for which risk protection has been agreed by means of tying in for the RSD exchange rate against the euro, another foreign currency or the growth in the retail price indices are translated into RSD on the balance sheet date in accordance with the provisions of the specific loan agreement. The effects of the performed conversion are reported within the income and expenses from the exchange rate differences. Loans are presented in the amount less impairment for individual and group impairment provisions. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. If in the future period there is a decrease in impairment due to loss, and the reduction can be objectively attributable to an event occurring after the impairment loss has been recognized (such as an improvement in the credit rating of the debtor), then impairment provision is reversed for a previously recognized impairment loss. The impaired amount is recognized in the statement of the total result in the income from reversal of impairment losses for credit losses.

(m) Investment securities

Investment securities are initially valued at fair value, including all direct transaction costs, for all securities that are not stated at fair value through the income statement, while their subsequent valuation is done depending on their classification as securities held to maturity, as securities at fair value through profit or loss or as securities available for sale.

(I) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payment terms and fixed maturities, for which members of the Group have the intention and ability to hold them up to maturity and which are not presented as financial assets at fair value through profit or loss or as available-for-sale assets.

Financial assets held to maturity are stated at amortized cost using the effective interest rate method. In the event that a significant portion of held-to-maturity financial assets is sold, the entire category will be reclassified as available-for-sale, or a member of the Group will not be able to carry out a re-classification of held-to-maturity financial assets either in the current, in the next two reporting periods. However, the sale and reclassification in one of the following cases will not jeopardize reclassification:

- Sale or reclassification made immediately prior to maturity, so that changes in market interest rates would not have a significant impact on the fair value of a financial asset,
- Sales or reclassifications made after a member of the Group has collected the bulk of the principal of a financial asset; and
- Sales or reclassification relating to individual cases, which are not expected to occur again or are not controlled by a member of the Group, and as such can not be predicted to a reasonable extent.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(m) Investment securities (continued)

(II) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets classified as held for trading or recognized by a member of the Group after initial recognition as financial assets at fair value through profit or loss. Financial assets at fair value through profit and loss are assets that are acquired or generated primarily for the purpose of sale or purchase in the near future, which are part of the portfolio of financial instruments that are jointly managed and for which there is evidence of a recent realization of profit in the short term or derivatives. The Group's management did not classify financial assets into a sub-category of assets that are stated at fair value through the income statement at initial recognition.

(III) Available-for-sale financial assets and equity investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or which are not classified in any other category of financial assets. Available-for-sale financial assets are placements for which there is an intention to hold in an indefinite period of time, which can be sold due to liquidity or due to changes in interest rates, foreign exchange rates or market prices.

If there is no active market for available-for-sale financial assets, their valuation is carried at cost. All other available-for-sale financial assets are valued at fair value.

Interest income and expense is recognized in the income statement using the effective interest rate method. The dividend income of a member of the Group is recognized at the moment of inflow of economic benefits. Foreign exchange gains and losses arising on available-for-sale securities are recognized under the income statement.

Other changes in fair value are recognized in the rest of the total result until the moment of sale or impairment of the securities when the cumulative income and expenses previously recognized within the rest of the total result are reclassified and reported in the income and expenses as a correction on the basis of reclassification .

In the case of available-for-sale financial assets, there is a decrease in fair value, with objective evidence of impairment of assets (long-term and continuous decline in value over a period of more than twelve months, as well as a decrease in value above 30% of the cost of assets), accumulated loss recognized directly in equity, is deducted from equity and recognized as an expense of impairment, although recognition of a financial asset has not ceased (IAS 39.59, IAS 39.67 and IAS 39.68).

Non-derivative financial assets may be reclassified from the category of available-for-sale assets in the category of loans and receivables where they meet the criteria defined for that category and if a member the Group also has the intention to keep these assets in the foreseeable future in the future or until their maturity.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Property and equipment

(I) Recognition and evaluation

Initial measurement of property and equipment is done at cost or at purchase price.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition, the equipment is measured at cost less accumulated amortization and total accumulated losses due to the decrease in value.

After initial recognition, the property is valued at the revaluation amount, which represents their fair value at the revaluation date less the subsequent accumulated amortization and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

When parts of the property or equipment have different useful lives, they are kept as separate items (main components) of the equipment.
Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

(II) Subsequent costs

The cost of replacing an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replacement part is written off. The cost of regular servicing of property and equipment is recognized in the income statement when it arises.

(III) Depreciation

Depreciation is recognized in the income statement in equal annual amounts over the estimated useful lives of a given item of real estate, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

The applied depreciation rates in the current and previous accounting period are:

Description	Estimated useful life (in years)	%
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 - 15	6.70% -50.00%
Investments in other fixed assets	1 - 23.5	4.25% -86.20%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.
Maintenance costs are recognized in the income statement for the period in which they are incurred.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(o) Intangible assets

Intangible assets are valued at cost or purchase price less depreciation and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 3 to 10 years, ie depreciation rates range from 10.00% to 33.34%.

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

(p) Investment property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost, ie price of the cost. The purchase value of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

For the subsequent evaluation of investment property, the Group members use the cost model, ie investment property is measured at cost less accumulated amortization and impairment losses.

Estimated lifetime of investment property is 40 years, and depreciation is calculated at a rate of 2.50%. Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the given real estate item, since this way best reflects the expected consumption of the useful economic value contained in the asset.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(q) Leasing

Under the leasing agreement, the members of the Group appear as a leasing user. Members of the Group classify leasing as financial in the case when the contract regulates that all risks and benefits on the basis of ownership of the leased object are transferred to the leasing user. All other leasing contracts are classified as operating lease contracts.

Leasing contracts relating to the lease of business premises in which the branches are located are mainly related to operational leasing. All payments made during the year under operating lease are recorded as the cost in the statement of the total result equally straightforward over the lease term.

Funds held under a finance lease are recognized as assets of the Group's members at their fair value or, if that value is lower, at the present value of the minimum lease payments determined at the beginning of the lease term. An appropriate obligation to the lessor is included in the financial position statement as a financial lease liability. The leasing rate is divided into the portion referring to the financial cost and the part that reduces the obligation on the basis of financial leasing, so that a constant interest rate on the remaining part of the obligation is achieved. The financial cost is expressed directly as the expense of the period.

(r) Impairment of non-financial assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are indicators indicating that their impairment has occurred. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value. For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period.

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortized, in the event that there was no recognition of the impairment loss.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities are the main source of financing for the Group.

The Group members classify financial instruments as financial liabilities or as equity in accordance with the substance of the contractual terms for a specific instrument.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(t) Provisions

Provision is recognized when a Group member is expected, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose reconstruction is expected to result in an outflow of resources representing economic benefits to a member of the Group. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(u) Benefits of employees

In accordance with regulations, members of the Group are obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. Members of the Group are also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period to which they relate.

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2017, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in note 34 (b).

(v) Financial guarantees

Financial guarantees are contracts that a Group member is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely). Financial guarantees are recorded under off-balance sheet items.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(w) Capital and reserves

The Group's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

The Group's capital was formed from the investments made by the founders of the Parent bank and the minority founder of Komercijalna banka ad, Banja Luka in cash and non-cash form. The founder may not withdraw funds invested in the Group's capital.

(x) Earnings per share

The parent bank displays basic and reduced earnings per share for its own ordinary shares. The basic earnings per share is calculated by dividing the gain or loss attributable to the owners of ordinary shares of the Home Bank weighted average of the number of ordinary shares in circulation during the period.

The reduced earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(y) Segment reporting

The business segment is part of the Group - a member of the Group, which independently deals with business activities from which revenues can be generated and incurred, including revenues and expenses arising from transactions with other members of the Group, whose business result is regularly controlled by the parent bank's management (as the main operational decision maker), to make decisions about resource allocation by segments and evaluate their results. Separate audited financial statements are available for business segments of the Group

In accordance with the International Financial Reporting Standard 8 - Business Segments, the Group also discloses information about the operation of operational segments, thus providing information users with additional information on revenues and expenditures arising from key business activities (Note 6.2).

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting

4. RISK MANAGEMENT

The banking group recognized the risk management process as 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, or the establishment of risk limits , as well as reporting in accordance with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment.

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Group's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, significant changes were made in the organizational structure of the parent Bank in 2017 (grouping of branches into Business centers, changes in the function of the economy and population, changes in decision making), as well as changes in internal acts regulating 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 non-performing receivables and exposures to one person or a group of related parties has improved.

Starting from 30.06.2017. The Group applies the Basel III standard and has taken all necessary measures to timely align 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 Group analysis their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially possible negative effects on the financial the result of the Group.

4. RISK MANAGEMENT (continued)

Risk Management System

The risk management system is defined by the following acts:

- Risk Management Strategy and Strategy and Capital Management Plan;
- Risk management policies;
- Risk management procedures;
- Methodologies for managing individual risks;
- Other acts.

The risk management strategy defines:

- Long-term goals, determined by the Bank's business policy and strategy, as well as the risk and risk tolerance set in line with those goals;
- Basic principles of risk transfer and management;
- Basic principles of the internal assessment of the Group's capital adequacy;
- Overview and definitions of all risks to which the Group is or may be exposed.

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 Group.

The Banking Group 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 Group's regular business activities;
- 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;
- Transparent reporting.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

- The way of organizing the banking risk management process of the Banking Group and the 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 banking group and the methodology for identifying and measuring, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the banking Group 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 banking group;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as handling in cases of adverse stress test results.

Risk Management Procedures the Group details the risk management process and the responsibilities and responsibilities of all organizational parts of the parent Bank and members of the banking group in the risk management system.

The individual methodologies of the Group members set out in more detail the methods and approaches used in the risk management system.

In 2017, members of the Banking Group calculated the value adjustment in accordance with the IAS 39 and IAS 37 standards, which are applicable as of December 31, 2017. At the beginning of 2018, the Group members harmonized the internal acts (methodologies and procedures) in accordance with the amendments to the regulations of the National Bank of Serbia in the area 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 01.01.2018. In the year then, the impairment calculation is carried out in accordance with IFRS 9. In accordance with IFRS 9, the Group members have adopted a new Methodology for assessing impairment of balance sheet assets and probable loss on off-balance sheet items, which will apply from 01.01.2018.

Jurisdictions

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

The Executive Board is responsible and responsible for the implementation of the risk management strategy and strategy and the capital management strategy 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 analyses 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 Group's exposure to a person related to the Group and shall notify the Management Board accordingly.

4. RISK MANAGEMENT (continued)

Jurisdiction (continued)

The Audit Committee (Business Monitoring Committee) is responsible and responsible for the analysis and supervision of the application and adequate implementation of the adopted strategies and policies for risk management and internal control systems of the parent Bank and the Group. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the exposure to risks arising from the structure of balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk. Each member of the Group has an Asset and Liability Management Committee.

The Credit Committee decides on credit requirements within the framework of the Bank's founding regulations, analyses the exposure of the parent Bank to credit, interest and currency risk, analyses the loan portfolio, and also proposes measures to the Executive Board of the parent Bank. Each member of the Group has a credit committee which decides within its competencies and limits.

The risk management function of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are 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 banking group.

The Bank's Asset Management Division is responsible for managing assets and liquidity, as well as managing Assets and Liabilities at the Group level. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The compliance function is obliged to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk management process

At the banking group level, the risks identified in the business are assessed regularly. Measurement implies the application of qualitative and quantitative methods and measurement models that allow for the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, their significance is determined based on a comprehensive risk assessment that is characteristic of particular business, products, activities and processes of the banking group.

Risk mitigation involves diversification, transfer, reduction and / or risk avoidance, in line with risk profile, risk pricing and risk tolerance for the banking group.

4. RISK MANAGEMENT (continued)

Risk management process (continued)

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

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

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 risk assessment and risk conclusions. Members of the Group report monthly on the organizational part of the Bank's risk management.

Types of risk

The Banking Group is particularly exposed in the business to the following types of risks: credit and related risks, liquidity risk, market risk, operational risk, investment risk, concentration risk, exposure and country risk, as well as all other risks that may arise in the ordinary course of business member of the Group.

4.1. Credit risk

Credit risk is the risk of the possibility of adverse effects on the Group's financial result and capital due to non-performance of the debtor's obligations towards members of the Group.

Members of the Group have defined criteria for granting loans, changing conditions, extending the deadline and restructuring the claims, which are prescribed by procedures and methodologies for placement approval and risk management. Loan approval is done depending on the target market, the characteristics of the borrower, and the purpose of the loan.

Prior to the approval of placements, the Group members assess the creditworthiness of the borrower as the primary source of repayment of placements based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and member bodies of the Group, in accordance with the defined decision system Decision on placement approval.

When making decisions, the principle of dual control of the so-called. A "four eyes principle", which ensures that there is always a proposed party and a party that approves a particular placement.

In accordance with the scope, type and complexity of the operations it performs, the Group has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The organizational model of the Group's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the Group's entire portfolio;
- Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
- Ranking of placements according to their risk;
- Performance in accordance with good practices for approving loans;
- Providing adequate controls for credit risk management.

With a view to managing credit risk, the Group's members strive to deal with clients with good creditworthiness and obtain appropriate payment security instruments. Members of the Group assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

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

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement.

In order to adequately and efficiently manage the risks they are exposed to in their operations, the parent Bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile, or maintaining an acceptable level of quality of the Group's loan portfolio.

The basic techniques of credit risk mitigation are:

- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

Exposure debits based on a single borrower are based on an assessment of the borrower's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. Members of the Group continuously control the movement of credit risk within a defined risk profile. In the event of exceeding the internal limits, the members of the Group shall submit an explanation with the proposal of the measures and an action plan, and the parent bank shall report to the Executive Board on that excess. Members of the Group are obliged to report to the parent Bank in the event of occurrence of extraordinary conditions in the business that may arise due to unfavourable trends in local markets, political and economic crises, and the like.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Group), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

Continuous control and monitoring of exposure risk at the Group's portfolio level, within the regulatory limits, is performed by the parent Bank. In case of exceeding the limit, the parent Bank determines the causes, informs and proposes measures for protection against the risk of exposure to the Executive Board of the parent Bank.

The diversification of investments at the Group level is aimed at mitigating credit risk by reducing portfolio concentration in individual asset segments.

Monitoring the quality of placements at the individual borrower level is primarily based on providing up-to-date information on the financial condition and creditworthiness of the borrower and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client groups of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets. The Group members also provide continuous monitoring and verification of the adequacy of the risk ranking process in accordance with the degree of profitability.
Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfillment of obligations in dealing with clients, the Group members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of claims, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the claims in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.
In accordance with local regulations, the Parent Bank and the Budva member in 2017 made a write-off of all impaired receivables by transfer from balance sheet to off-balance sheet records, resulting in a reduction in gross loans and allowances in the balance sheet, and consequently a decrease indicators of NPL. A member of Banja Luka made a write-off only for the purpose of creating a consolidated report. A group, besides credit exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Group members use the same control processes and procedures that are used for credit risk.

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system:

- Members of the Group report to the parent Bank on a monthly basis;
- The parent bank reports on a consolidated basis, semi-annually and annually.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of problematic and restructured receivables

Members of the Group monitor the quality of the portfolio based on identifying and analyzing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Watch List and NPL clients (clients with problematic receivables).

Restructured non-problematic clients are classified as potentially risky clients, while restructured problematic are classified as troubled clients.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementing measures for prevention of risky placements, ie mitigation and reduction of credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard Clients, and if further credit risk is identified, clients turn to the category of clients with problematic receivables.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of problematic and restructured receivables (continued)

Restructuring of receivables is the approval, due to the financial difficulties of the debtor, the concessions in connection with the repayment of individual receivables that would not be approved by the debtor to be in these difficulties, regardless of whether there are due liabilities, whether the claim is impaired and whether it was incurred non-settlement status. Restructuring is carried out in one of the following ways: by changing the conditions under which the claim was incurred, especially if the repayment terms subsequently agreed upon are more favorable than the initially agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. . In addition, the category of restructured receivables also includes claims in which:

‣ changes in the contractual terms of repayment of problematic claims or which, in the absence of the above mentioned changes, would be classified as category of problematic, receivables,
‣ a change in the contractual terms of the repayment of receivables, resulting in total or partial write-off in a material amount,
‣ Members of the Group have activated the contractual restructuring clauses under which the terms of repayment change due to the occurrence of certain events (embedded clauses) against the debtor from which the claim has already been classified into a group of problematic claims or would have been so classified as not being activated and those clauses,
‣ If the debtor was simultaneously granted a new claim (or shortly before or after this approval), he made a payment on the basis of another claim of the Group (or another legal entity under which the claim was transferred to that debtor), which has been classified or is fulfilled the conditions to be classified in a group of problematic ones or, in the absence of a new claim, would be classified in that group, that is, fulfill those conditions.

Members of the Group regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring the measures taken, ie realization of them, such as, for example, the settlement of matured liabilities is done on a daily basis. Semi-annual monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of collateral and the monitoring of overall business are the key points of the mentioned monitoring.

Restructured receivables classified in the group of problematic claims of a Group member after one year from the date of its restructuring are classified into a group of receivables that are not considered problematic if the following conditions are met:

‣the amount of impairment for restructured receivables has not been determined and the status of defaults has not occurred;
‣ in the past 12 months, payments have been made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
‣ based on the analysis of the financial condition, ie the creditworthiness of the borrower, it was estimated that the borrower will be able to settle the liabilities in full in accordance with the changed terms of repayment.
Risk of asset quality change.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of problematic and restructured receivables (continued)

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of credit.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

Low level of risk involves dealing with clients with good creditworthiness and is acceptable for the Group (rating categories 1 and 2), increased risk represents business with clients who have certain business problems and can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3) and a high level of risk indicates clients with negative business results and poor credit history (risk categories 4 and 5). The Group improved its internal rating system in 2017, with risk category 4 divided into three sub-categories: 4 - Non-risk clients (RE), 4D risk clients (NRE) with delay of up to 90 days and 4DD risky clients NPE) with a delay of 91 to 180 days.

The Group is protected against the risk of asset quality changes through the continuous monitoring of client's operations, identification of changes that may result from deterioration of the debtor's balance, delay in repayment or changes in the environment, and the provision of appropriate collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset value change

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions is made only when there is a valid basis, i.e. when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the deadline for payment of principal or interest, difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of the expected future cash flows from client operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets.
Members of the Group assess the impairment of receivables on a group and on a single basis.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual assessment

Members of the Group assess the value adjustment for each individually significant placement with the status of default (default risk, sub-category risk 4D, 4DD and category 5 according to the internal rating system) and take into account the financial position of the borrower, the sustainability of the business plan, its ability to improve its performance in the event of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collateral and the certainty of fulfilling the client's obligations towards the members of the Group, a new assessment of the impairment of the placements is made.

The threshold of material significance of a member of the Group is determined on the basis of an analysis of the value structure of the portfolio by type of clients and products.

An allowance for impairment on an individual basis is calculated if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual Assessment (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

▸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 a member of the Group, due to the financial difficulties of the borrower, substantially changes the conditions for repayment of claims in relation to those initially contracted;
▸ The debtor can't 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, bankruptcy or some other type of financial reorganization of the borrower) and the like.

Evidence can be documented and analyzed in the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of customer collateral, reports of forced collection and blocking days, reports on arrears and other information to which the group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on placements, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, then the amount of impairment is estimated by discounting future cash flows from operations. The calculation of the expected future cash flows also includes funds from collateral realization (secondary sources), if it is estimated that there is no objective evidence that the loan can be satisfied from the expected future flows from the regular business and that it will be realistically secured from the collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

Value adjustments are assessed in a group by all placements where no objective evidence of impairment has been identified and which are not individually significant with the default status and for placements 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 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.

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.

By 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 diminishes the value of the loan and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is made when it is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability. The determination of the probable loss of a member of the Group is also performed for unused commitments, for which they have not unconditionally and without prior notice announced the possibility of canceling the contractual obligation. When calculating provisions based on unused commitments, a conversion factor (CCF) is used, which adjusts the carrying amount of unused commitments.

When assessing provisions for potential losses on off-balance sheet items, assets from collateral realization are recognized, if it is entirely certain that the outflow of assets on the basis of contingent liabilities will be settled out of collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Group members use, in addition to regular monitoring of clients' operations, is to provide security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment.

As standard security instruments, the Group members provide contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, they contract:

- For commercial loans - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For household loans - mortgages on real estate, deposits, guarantees of a solid debt, insurance of the National Corporation for securing housing loans at the parent Bank, and others.

When assessing real estate or mortgaged property, members of the Group provide a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Group, and the policies are vinculated for the benefit of the Group.

In order to protect against changes in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Group protects against potential losses due to the inability to collect collateral from collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. The haircut estimates the estimated market value of each security instrument down to the expected value that will be charged by its realization in the future, taking into account the volatility of the market value, the possibility of realization and cash outflows on the basis of activation and sales costs (court fees, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the Group pay attention to the regular valuation of collaterals. For non-risk placements (PE), mortgages on residential and business properties are estimated at least once in three years by an authorized appraiser. For risky placements (NPEs), mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Regular monitoring of the value of immovable property means checking the value of real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Group (realized sales, supply and demand) by the regions specified in the collateral catalog, using the statistical model, etc. For all business real estate, the Group conducts a check of value at least once a year, and for housing and other real estate at least once in three years.

The value of the collateral and the trend of movement is monitored and updated by the members of the Group in order to minimize the potential risk of unrealistic estimation, and if necessary, additional collateral may be required in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4.1.1. Maximum Credit Risk Exposure

The total exposure to credit risk as at 31 December 2017 and 2016 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

	In thousands of RSD			
	31.12.2017		**31.12.2016**	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**430,849,698**	**400,108,317**	**472,812,097**	**428,827,608**
Cash and balances with the central bank	56,076,748	56,076,748	61,919,102	61,919,102
Loans and advances to banks and other financial institutions	30,436,134	30,233,555	43,528,675	43,216,681
Loans and receivables from customers	193,015,753	174,242,139	198,491,610	166,401,008
Financial assets	121,522,584	121,522,580	140,590,950	140,425,071
Other assets	10,722,146	7,480,376	10,957,501	7,255,156
Assets	19,076,333	10,552,918	17,324,259	9,610,590
II. Off-balance sheet items	**37,158,598**	**36,988,580**	**33,930,412**	**33,876,991**
Payable guarantees	4,017,215	3,966,720	4,336,212	4,277,043
Performance guarantees	4,807,375	4,766,095	6,950,946	6,920,093
Irrevocable liabilities	28,036,262	27,982,000	22,050,789	22,371,693
Other	297,546	273,565	592,465	308,162
Total (I+II)	**468,008,296**	**437,096,897**	**506,742,509**	**462,704,599**

The largest credit risk for the Group arises from the realized loan arrangements, but the Group is exposed to the risk on the basis of off-balance sheet positions arising from the potential and assumed liabilities.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

31.12.2017	Nonproblematic receivables	Non-performing receivables	Total	Impairment of Nonproblematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	39,355,533	1,735,814	41,091,347	96,490	594,165	690,629	40,400,692
Cash Loans	26,216,812	350,588	26,567,400	216,115	262,960	479,075	26,088,326
Agricultural Loans	7,228,382	206,502	7,434,885	62,967	100,167	163,133	7,271,751
Other Loans	5,780,381	395,984	6,176,365	81,840	376,724	458,564	5,717,801
Micro Business	9,406,132	1,105,531	10,511,663	134,612	476,179	610,790	9,900,872
Total Retail	**87,987,240**	**3,794,419**	**91,781,660**	**592,023**	**1,810,194**	**2,402,217**	**89,379,443**
Large corporate clients	38,495,577	16,958,551	55,454,128	333,797	11,881,648	12,215,445	43,238,683
Middle corporate clients	12,056,414	2,090,406	14,146,820	82,748	1,389,311	1,472,059	12,674,761
Small corporate clients	5,873,229	1,781,079	7,654,308	79,221	910,951	990,172	6,664,136
State owned clients	10,861,724	997,190	11,858,914	89,843	166,416	256,259	11,602,655
Other	10,682,335	1,437,589	12,119,925	308	1,437,155	1,437,463	10,682,462
Total Corporate	**77,969,279**	**23,264,815**	**101,234,094**	**585,916**	**15,785,481**	**16,371,397**	**84,862,696**
Total	**165,956,519**	**27,059,234**	**193,015,753**	**1,177,939**	**17,595,675**	**18,773,614**	**174,242,139**
Due from banks	**30,233,576**	**202,558**	**30,436,134**	**21**	**202,558**	**202,579**	**30,233,555**

Note: According to the internal segmentation, the household sector includes natural persons, farmers and microbusiness (entrepreneurs and micro clients).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

In thousands of RSD

31.12.2016	Nonproblematic receivables	Non-performing receivables	Total	Impairment of Nonproblematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	40,207,271	2,317,300	42,524,571	88,859	1,131,996	1,220,854	41,303,717
Cash Loans	20,674,119	1,201,269	21,875,388	171,541	1,107,438	1,278,979	20,596,408
Agricultural Loans	6,194,484	482,267	6,676,750	50,109	397,292	447,401	6,229,349
Other Loans	5,387,175	745,751	6,132,926	86,340	732,306	818,646	5,314,280
Micro Business	8,064,191	2,180,334	10,244,525	133,151	1,464,495	1,597,646	8,646,879
Total Retail	**80,527,240**	**6,926,920**	**87,454,160**	**530,000**	**4,833,527**	**5,363,527**	**82,090,633**
Large corporate clients	34,812,545	24,078,785	58,891,330	386,634	19,545,036	19,931,670	38,959,660
Middle corporate clients	18,508,866	3,228,194	21,737,061	239,248	2,297,711	2,536,959	19,200,101
Small corporate clients	8,019,382	2,830,715	10,850,097	135,783	1,858,921	1,994,704	8,855,393
State owned clients	9,566,211	1,914,002	11,480,213	64,686	562,870	627,556	10,852,657
Other	6,453,124	1,625,625	8,078,749	10,590	1,625,595	1,636,185	6,442,564
Total Corporate	**77,360,128**	**33,677,322**	**111,037,450**	**836,940**	**25,890,134**	**26,727,074**	**84,310,376**
Total	**157,887,368**	**40,604,242**	**198,491,610**	**1,366,940**	**30,723,661**	**32,090,602**	**166,401,008**
Due from banks	**43,218,800**	**309,875**	**43,528,675**	**2,120**	**309,874**	**311,994**	**43,216,681**

Note: According to the internal segmentation, the household sector includes natural persons, farmers and microbusiness (entrepreneurs and micro clients).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in value adjustments of receivables in the Balance Sheet

In thousands of RSD

	31.12.2016	Increase in impairment	Reversal of impairment	Other changes	31.12.2017
Total retail	5,363,527	2,409,982	(3,168,627)	(2,202,666)	2,402,217
Total corporate	26,727,075	9,552,922	(9,951,081)	(9,957,518)	16,371,398
Total	**32,090,602**	**11,962,905**	**(13,119,707)**	**(12,160,185)**	**18,773,614**
Receivables from banks	**311,994**	**33**	**(62,697)**	**(46,751)**	**202,579**

* Other changes relate to the carry-over of entirely impaired receivables from balance sheets to off-balance sheet records, exchange rate differences and other changes.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Problematic loans and receivables

Problem loans and receivables are those loans and receivables for which the Group has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default-default (risk sub-category 4D and 4DD according to the internal rating system and risk categories 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset 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 write-off of entirely impaired receivables from transfer from balance sheet to off-balance sheet records, as follows: with the parent Bank and the member from Budva in accordance with local regulations, and with the member from Banja Luka for the needs preparation of a consolidated report. In addition, the reduction in value adjustments also influenced the collection of risky placements, higher than planned.

Non-problematic loans and receivables

For non-problematic receivables (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.

The collateral assessment on a group basis is based on the probability of the occurrence of the status of non-settlement of the debtor's (PD) obligations calculated on the basis of migration into the status of default, by type of client or product. By 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 CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Undeclared claims on arrears days - Non-payment claims

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	38,420,681	559,412	153,873	221,566	-	**39,355,533**
Cash Loans	24,291,275	1,702,682	166,024	56,831	-	**26,216,812**
Agricultural Loans	6,953,492	182,300	71,846	20,745	-	**7,228,382**
Other Loans	5,410,478	312,882	45,446	11,575	-	**5,780,381**
Micro Businesses	8,080,813	1,226,765	77,073	21,481	-	**9,406,132**
Retail clients	**83,156,739**	**3,984,040**	**514,263**	**332,198**	-	**87,987,240**
Large corporate clients	38,038,591	148,686	308,300	-	-	**38,495,577**
Middle corporate clients	11,005,501	946,232	94,118	10,563	-	**12,056,414**
Small corporate clients	5,473,967	310,776	56,863	31,623	-	**5,873,229**
State owned clients	10,743,288	118,436	-	-	-	**10,861,724**
Other	10,548,614	133,614	107	-	-	**10,682,335**
Corporate clients	**75,809,960**	**1,657,745**	**459,388**	**42,186**	-	**77,969,279**
Total	**158,966,699**	**5,641,785**	**973,651**	**374,384**	-	**165,956,519**
Out of which: restructured	2,062,044	410,268	178,344	4,755	-	**2,655,411**
Due from banks	**26,210,359**	**4,023,218**	**-**	**-**	-	**30,233,576**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Undeclared claims on days of arrears

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	39,141,616	616,899	160,811	287,945	-	**40,207,271**
Cash Loans	19,116,857	1,352,724	148,406	56,132	-	**20,674,119**
Agricultural Loans	5,919,094	206,274	52,417	16,699	-	**6,194,484**
Other Loans	5,053,139	290,789	29,636	13,612	-	**5,387,175**
Micro Businesses	6,952,990	975,960	61,810	73,431	-	**8,064,191**
Retail clients	**76,183,695**	**3,442,645**	**453,080**	**447,819**	-	**80,527,240**
Large corporate clients	34,521,502	291,043	-	-	-	**34,812,545**
Middle corporate clients	16,986,649	1,482,182	26,237	13,798	-	**18,508,866**
Small corporate clients	7,075,889	874,961	21,321	47,211	-	**8,019,382**
State owned clients	9,380,610	185,600	-	-	-	**9,566,211**
Other	6,255,752	196,111	1,262	-	-	**6,453,124**
Corporate clients	**74,915,706**	**2,807,146**	**172,708**	**93,966**	-	**77,360,128**
Total	**151,099,401**	**6,249,791**	**625,788**	**541,785**	-	**157,887,368**
Out of which: restructured	2,684,851	599,992	34,572	41,979	-	**3,361,395**
Due from banks	**43,218,800**	**-**	**-**	**-**	-	**43,218,800**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. **RISK MANAGEMENT (continued)**

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Impaired debts due on arrears days - Problematic claims

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	213,931	65,588	18,498	48,523	1,389,275	**1,735,814**
Cash Loans	53,274	19,848	10,750	18,205	248,512	**350,588**
Agricultural Loans	20,079	5,777	9,331	8,440	162,875	**206,502**
Other Loans	14,691	2,471	832	219	377,771	**395,984**
Micro Businesses	70,524	15,459	14,779	56,066	948,704	**1,105,531**
Retail clients	**372,497**	**109,143**	**54,190**	**131,452**	**3,127,137**	**3,794,419**
Large corporate clients	2,262,581	-	-	-	14,695,970	**16,958,551**
Middle corporate clients	93,394	22,138	-	58,566	1,916,308	**2,090,406**
Small corporate clients	88,111	373,012	36,677	2,860	1,280,419	**1,781,079**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,767	-	-	-	822	**1,437,589**
Corporate clients	**4,621,904**	**418,172**	**36,677**	**61,426**	**18,126,636**	**23,264,815**
Total	**4,994,401**	**527,315**	**90,867**	**192,878**	**21,253,773**	**27,059,234**
Out of which: restructured	2,562,976	78,371	54,310	99,769	16,484,893	**19,280,319**
Due from banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Impaired debts due on arrears days - Problematic claims

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	204,127	54,583	27,781	50,836	1,979,972	**2,317,300**
Cash Loans	48,747	17,883	11,304	14,898	1,108,438	**1,201,269**
Agricultural Loans	9,748	3,642	3,293	2,457	463,126	**482,267**
Other Loans	12,627	563	155	802	731,604	**745,751**
Micro Businesses	16,905	5,158	19,453	14,500	2,124,318	**2,180,334**
Retail clients	**292,153**	**81,830**	**61,985**	**83,493**	**6,407,459**	**6,926,920**
Large corporate clients	2,521,936	3,466,420	49,512	-	18,040,917	**24,078,785**
Middle corporate clients	290,578	66,476	-	13,254	2,857,886	**3,228,194**
Small corporate clients	469,667	20,532	-	26,523	2,313,994	**2,830,715**
State owned clients	1,267,471	48,709	-	-	597,822	**1,914,002**
Other	1,536,823	-	-	-	88,801	**1,625,625**
Corporate clients	**6,086,475**	**3,602,137**	**49,512**	**39,777**	**23,899,420**	**33,677,322**
Total	**6,378,628**	**3,683,967**	**111,498**	**123,270**	**30,306,879**	**40,604,242**
Out of which: restructured	2,848,138	3,579,359	60,187	7,057	20,922,319	**27,417,059**
Due from banks	**309,874**	-	-	-	-	309,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic claims

31.12.2017	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**91,781,660**	**2,402,217**	**3,794,419**	**1,011,772**	**1,810,194**	**4,13%**	**3,372,392**
Housing Loans	41,091,347	690,655	1,735,814	485,979	594,165	4,22%	1,740,307
Cash Loans	26,567,400	479,074	350,588	45,244	262,960	1,32%	242,993
Agricultural Loans	7,434,885	163,133	206,502	19,626	100,167	2,78%	196,094
Other	6,176,365	458,564	395,984	-	376,724	6,41%	11,857
Micro Businesses	10,511,663	610,790	1,105,531	460,924	476,179	10,52%	1,181,140
Corporate	**101,234,094**	**16,371,397**	**23,264,815**	**18,268,546**	**15,785,481**	**22,98%**	**21,511,491**
Agriculture	6,221,355	161,647	253,050	28,243	113,994	4,07%	252,908
Manufacturing Industry	23,673,580	5,963,135	9,161,447	8,191,755	5,735,338	38,70%	6,607,183
Electric Energy	1,135,657	28,197	67,005	-	174	5,90%	67,005
Construction	6,474,022	1,016,800	1,083,331	959,938	1,007,179	16,73%	1,297,761
Wholesale and Retail	24,616,833	2,014,256	3,960,147	3,102,743	1,887,183	16,09%	4,048,023
Service Activities	14,773,783	1,222,929	1,438,775	1,411,506	1,089,580	9,74%	1,465,235
Real Estate Activities	1,582,823	693,244	1,345,149	960,907	691,123	84,98%	1,370,156
Other	22,756,041	5,271,189	5,955,911	3,613,454	5,260,909	26,17%	6,403,219
Total	**193,015,753**	**18,773,614**	**27,059,234**	**19,280,319**	**17,595,675**	**14,02%**	**24,883,882**
Due from banks	**30,436,134**	**202,579**	**202,558**	**-**	**202,558**	**0,67%**	**407,543**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic claims (continued)

31.12.2016	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**87,454,160**	**5,363,527**	**6,926,920**	**1,194,271**	**4,831,972**	**7,92%**	**6,030,269**
Housing Loans	42,524,571	1,220,682	2,317,300	450,074	1,131,862	5,45%	3,399,885
Cash Loans	21,875,388	1,279,151	1,201,269	62,924	1,107,338	5,49%	628,279
Agricultural Loans	6,676,750	447,401	482,267	39,016	397,270	7,22%	476,504
Other	6,132,926	818,646	745,751	489	732,288	12,16%	40,703
Micro Businesses	10,244,525	1,597,646	2,180,334	641,768	1,463,213	21,28%	1,484,897
Corporate	**111,037,450**	**26,727,075**	**33,677,322**	**26,222,788**	**25,891,689**	**30,33%**	**32,669,354**
Agriculture	6,963,406	296,167	355,855	51,981	233,910	5,11%	370,591
Manufacturing Industry	36,548,279	10,372,448	14,377,412	12,820,759	10,109,059	39,34%	10,743,176
Electric Energy	311,333	49,207	-	-	-	0,00%	-
Construction	3,865,325	1,644,715	1,660,952	1,308,284	1,513,279	42,97%	1,867,323
Wholesale and Retail	30,609,582	4,712,214	5,726,507	4,289,886	4,525,657	18,71%	6,336,296
Service Activities	12,166,402	2,577,391	2,946,538	2,876,445	2,457,942	24,22%	3,791,587
Real Estate Activities	1,837,179	704,562	1,421,259	954,401	696,020	77,36%	1,458,900
Other	18,735,945	6,370,370	7,188,799	3,921,032	6,355,820	38,37%	8,101,509
Total	**198,491,610**	**32,090,602**	**40,604,242**	**27,417,059**	**30,723,661**	**20,46%**	**38,699,652**
Due from banks	**43,528,675**	**311,994**	**309,874**	**-**	**309,874**	**0,71%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic claims (continued)

Changes in non-performing receivables

	Gross 31.12.2016	New non-performing receivables	Decrease in non-performing receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2017	Net 31.12.2017
Housing Loans	2,317,166	352,295	(766,761)	(128,171)	(38,715)	1,735,814	1,141,650
Cash Loans	1,201,169	183,344	(1,008,469)	(10,025)	(15,431)	350,588	87,628
Agricultural Loans	482,245	123,424	(386,295)	(8,147)	(4,725)	206,502	106,335
Other Loans	745,733	98,132	(441,143)	(2,938)	(3,800)	395,984	19,260
Micro Businesses	2,179,052	146,615	(1,138,086)	(65,259)	(16,791)	1,105,531	629,352
Retail	**6,925,365**	**903,810**	**(3,740,754)**	**(214,541)**	**(79,460)**	**3,794,419**	**1,984,225**
Large corporate clients	24,078,794	1,467,414	(8,166,593)	(813,349)	392,285	16,958,551	5,077,548
Middle corporate clients	3,228,194	37,985	(1,178,665)	(89,972)	92,864	2,090,406	741,039
Small corporate clients	2,832,261	183,291	(1,097,812)	(77,889)	(58,773)	1,781,079	829,539
State owned clients	1,914,002	68,060	(525,411)	(64,543)	(394,919)	997,190	830,774
Other	1,625,625	412	(88,401)	(51,933)	(48,112)	1,437,589	434
Corporate Clients	**33,678,877**	**1,757,162**	**(11,056,882)**	**(1,097,685)**	**(16,656)**	**23,264,815**	**7,479,334**
Total	**40,604,242**	**2,660,972**	**(14,797,636)**	**(1,312,226)**	**(96,116)**	**27,059,234**	**9,463,559**
Due from banks	**309,874**	**-**	**-**	**-**	**(107,316)**	**202,558**	**-**

* Other changes relate to a partial increase / decrease in the amount of receivables within one lot during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables

	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	39,084,856	257,801	12,876	39,355,533	39,001,059	39,585,087	616,664	5,520	40,207,271	39,763,653
Cash Loans	26,144,252	67,874	4,687	26,216,812	11,970,041	20,592,587	79,205	2,326	20,674,119	15,963,266
Agricultural Loans	7,200,380	27,708	294	7,228,382	6,065,831	6,166,607	25,291	2,586	6,194,483	5,864,902
Other Loans	5,756,521	19,084	4,776	5,780,381	156,647	5,341,209	41,914	4,052	5,387,175	146,036
Micro Businesses	8,799,696	446,581	159,855	9,406,132	9,523,078	7,341,879	418,421	303,890	8,064,191	8,177,476
Retail	**86,985,706**	**819,047**	**182,487**	**87,987,240**	**66,716,656**	**79,027,369**	**1,181,496**	**318,375**	**80,527,240**	**69,915,334**
Large corporate clients	37,281,395	1,214,182	-	38,495,577	36,547,962	30,707,102	4,105,443	-	34,812,545	32,863,162
Middle corporate clients	11,844,621	210,314	1,478	12,056,414	11,429,111	18,149,288	359,573	4	18,508,866	17,774,599
Small corporate clients	5,663,004	210,223	2	5,873,229	5,812,991	7,394,235	595,028	30,119	8,019,382	7,954,830
State owned clients	9,042,905	1,768,042	50,777	10,861,724	6,158,448	7,757,111	500,825	1,308,275	9,566,211	5,311,410
Other	5,580,295	5,101,481	560	10,682,335	4,513,126	940,332	5,473,897	38,896	6,453,124	4,382,749
Corporate Clients	**69,412,221**	**8,504,241**	**52,817**	**77,969,279**	**64,461,639**	**64,948,069**	**11,034,765**	**1,377,294**	**77,360,128**	**68,286,750**
Total	**156,397,927**	**9,323,288**	**235,304**	**165,956,519**	**131,178,295**	**143,975,438**	**12,216,261**	**1,695,669**	**157,887,368**	**138,202,084**
Due from banks	**30,233,464**	**-**	**112**	**30,233,576**	**-**	**43,218,801**	**-**	**-**	**43,218,800**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

31.12.2017	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**91,781,660**	**2,402,217**	**1,839,065**	**1,011,772**	**377,743**	**2,00%**	**1,569,799**
Housing Loans	41,091,347	690,655	985,645	485,979	186,128	2,40%	983,744
Cash Loans	26,567,400	479,074	256,425	45,244	24,538	0,97%	55,818
Agricultural Loans	7,434,885	163,133	19,711	19,626	5,399	0,27%	18,746
Other	6,176,365	458,564	5,815	-	11	0,09%	6,793
Micro Businesses	10,511,663	610,790	571,469	460,924	161,666	5,44%	504,697
Corporate Clients	**101,234,094**	**16,371,397**	**20,096,664**	**18,268,546**	**12,935,446**	**19,85%**	**19,483,092**
Agriculture	6,221,355	161,647	149,589	28,243	16,594	2,40%	149,589
Manufacturing Industry	23,673,580	5,963,135	8,970,181	8,191,755	5,660,335	37,89%	8,591,732
Electric Energy	1,135,657	28,197	-	-	-	0,00%	-
Construction	6,474,022	1,016,800	988,884	959,938	911,027	15,27%	980,283
Wholesale and Retail	24,616,833	2,014,256	3,396,861	3,102,743	1,319,589	13,80%	3,170,340
Service Activities	14,773,783	1,222,929	1,734,740	1,411,506	1,107,568	11,74%	1,734,740
Real Estate Activities	1,582,823	693,244	960,907	960,907	673,604	60,71%	960,907
Other	22,756,041	5,271,189	3,895,502	3,613,454	3,246,730	17,12%	3,895,502
Total	**193,015,753**	**18,773,614**	**21,935,730**	**19,280,319**	**13,313,189**	**11,36%**	**21,052,891**
Due from banks	**30,436,134**	**202,579**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2016

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**87,454,160**	**5,363,527**	**1,910,287**	**1,194,271**	**575,309**	**2,18%**	**1,959,377**
Housing Loans	42,524,571	1,220,682	948,830	450,074	193,179	2,23%	947,429
Cash Loans	21,875,388	1,279,151	134,317	62,924	44,877	0,61%	74,651
Agricultural Loans	6,676,750	447,401	39,965	39,016	22,814	0,60%	39,816
Other	6,132,926	818,646	1,089	489	489	0,02%	130
Micro Businesses	10,244,525	1,597,646	786,086	641,768	313,950	7,67%	897,351
Corporate Clients	**111,037,450**	**26,727,075**	**28,868,167**	**26,222,788**	**21,018,784**	**26,00%**	**29,131,106**
Agriculture	6,963,406	296,167	233,450	51,981	10,585	3,35%	62,011
Manufacturing Industry	36,548,279	10,372,448	13,022,853	12,820,759	9,636,129	35,63%	13,166,903
Electric Energy	311,333	49,207	-	-	-	0,00%	84,030
Construction	3,865,325	1,644,715	1,308,284	1,308,284	1,224,520	33,85%	1,308,284
Wholesale and Retail	30,609,582	4,712,214	6,064,460	4,289,886	3,451,874	19,81%	6,278,825
Service Activities	12,166,402	2,577,391	2,981,533	2,876,445	2,427,775	24,51%	2,962,137
Real Estate Activities	1,837,179	704,562	967,176	954,401	644,009	52,64%	979,951
Other	18,735,945	6,370,370	4,290,412	3,921,032	3,623,891	22,90%	4,288,964
Total	**198,491,610**	**32,090,602**	**30,778,454**	**27,417,059**	**21,594,093**	**15,51%**	**31,090,483**
Due from banks	**43,528,675**	**311,994**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

	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	948,830	189,758	(35,645)	(78,596)	(38,702)	985,645	799,516
Cash Loans	134,317	160,700	(24,111)	(10,444)	(4,037)	256,425	231,887
Agricultural Loans	39,965	7,677	(26,319)	(1,222)	(390)	19,711	14,312
Other Loans	1,089	1,548	(56)	3,234	-	5,815	5,804
Micro Businesses	786,086	6,773	(203,290)	(28,705)	10,604	571,469	409,803
Retail	**1,910,287**	**366,457**	**(289,422)**	**(115,733)**	**(32,524)**	**1,839,065**	**1,461,323**
Large corporate clients	25,131,407	1,023,848	(8,040,033)	(840,411)	241,630	17,516,440	5,920,747
Middle corporate clients	1,729,109	152,968	(547,348)	(60,089)	70,342	1,344,983	515,540
Small corporate clients	1,155,871	56,738	(196,747)	(35,826)	(27,897)	952,139	441,836
State owned clients	482,401	1,055	(482,401)	(19,533)	19,533	1,055	1,051
Other	369,380	-	(75,429)	(11,903)	-	282,048	282,045
Corporate Clients	**28,868,167**	**1,234,609**	**(9,341,958)**	**(967,762)**	**303,609**	**20,096,664**	**7,161,218**
Total	**30,778,454**	**1,601,066**	**(9,631,380)**	**(1,083,494)**	**271,085**	**21,935,730**	**8,622,541**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other changes relate to a partial increase / decrease in the amount of restructured receivables within one lot during the year.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

Members of the Group implement different restructuring measures depending on the needs of clients, respecting the Group's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Group members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of arrears, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance claims from other creditors in order to improve the position of the Group (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Group members did not carry out partial write-offs in the course of restructuring, but in the following period, they will carefully consider the justification and these measures in the restructuring process, if established, in order to reduce the debtor's liabilities to a realistic level that can be repaid from the cash flow, whereby the comparative and collateral position of the Group will be considered with the projection of the possibility of collection, in order for the Group members to collect their claims in the maximum possible amount,
- The conversion of debt into equity - has not been carried out in the past period, and in the forthcoming period, an individual assessment of the justification of the realization of this measure will be carried out if it is the only possibility for the implementation of the restructuring, ie the collection.

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio.

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

	Non problematic receivables					Problematic receivables				
31.12.2017	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**80,443,626**	**4,025,430**	**3,518,184**	**-**	**-**	**3,122,801**	**343,401**	**328,217**	**-**	**-**
Housing Loans	35,946,088	1,816,173	1,593,272	-	-	1,532,194	167,780	35,840	-	-
Cash Loans	24,286,208	1,222,315	708,289	-	-	302,978	38,768	8,841	-	-
Agricultural Loans	7,153,549	6,728	68,106	-	-	205,882	64	556	-	-
Other	5,353,083	54,526	372,772	-	-	383,880	3,615	8,489	-	-
Micro Businesses	7,704,698	925,689	775,745	-	-	697,866	133,174	274,491	-	-
Corporate Clients	**58,769,024**	**7,041,714**	**12,158,541**	**-**	**-**	**22,791,567**	**242,462**	**230,786**	**-**	**-**
Agriculture	5,813,795	121,360	33,150	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	105,722	1,171,056	-	-	9,145,453	15,994	-	-	-
Electric Energy	82,030	3	986,619	-	-	67,005	-	-	-	-
Construction	4,747,909	210,783	431,998	-	-	934,013	149,319	-	-	-
Wholesale and Retail	18,359,633	1,044,963	1,252,091	-	-	3,652,235	77,126	230,786	-	-
Service Activities	11,743,285	881,824	709,899	-	-	1,438,755	19	-	-	-
Real Estate Activities	167,366	54,032	16,276	-	-	1,345,149	-	-	-	-
Other	4,619,651	4,623,026	7,557,453	-	-	5,955,907	4	-	-	-
Total	**139,212,649**	**11,067,144**	**15,676,726**	**-**	**-**	**25,914,368**	**585,863**	**559,003**	**-**	**-**
Due from banks	**7,883,218**	**4,122**	**604,369**	**5,234,504**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

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

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

	Non problematic receivables					Problematic receivables				
31.12.2016	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**	**Serbia**	**Montenegro**	**Bosnia and Herzegovina**	**EU**	**Other**
Retail	**74,137,624**	**3,270,768**	**3,118,847**	**-**	**-**	**5,167,534**	**884,462**	**874,924**	**-**	**-**
Housing Loans	37,271,767	1,543,567	1,391,937	-	-	1,992,031	278,496	46,773	-	-
Cash Loans	18,968,032	1,017,024	689,063	-	-	924,303	123,650	153,316	-	-
Agricultural Loans	6,081,950	9,903	102,631	-	-	467,403	0	14,863	-	-
Other	5,239,787	52,564	94,824	-	-	662,682	19,572	63,497	-	-
Micro Businesses	6,576,089	647,709	840,393	-	-	1,121,115	462,744	596,475	-	-
Corporate Clients	**64,243,239**	**6,881,172**	**6,235,717**	**-**	**-**	**32,412,891**	**617,583**	**579,363**	**-**	**67,485**
Agriculture	6,416,768	181,481	9,303	-	-	345,824	0	10,031	-	-
Manufacturing Industry	20,620,278	153,502	1,397,086	-	-	14,174,435	117,266	85,711	-	-
Electric Energy	83,227	5,593	222,513	-	-	0	0	0	-	-
Construction	1,786,210	278,123	140,040	-	-	1,351,493	309,459	0	-	-
Wholesale and Retail	23,274,624	642,396	966,054	-	-	5,149,413	155,333	421,760	-	-
Service Activities	8,098,887	816,056	304,920	-	-	2,884,345	332	61,862	-	-
Real Estate Activities	307,600	61,109	47,211	-	-	1,409,119	12,140	-	-	-
Other	3,655,645	4,742,911	3,148,590	-	-	7,098,261	23,053	-	-	67,485
Total	**138,380,863**	**10,151,940**	**9,354,564**	**-**	**-**	**37,580,425**	**1,502,045**	**1,454,287**	**-**	**67,485**
Due from banks	**11,156,376**	**5,608**	**141,067**	**8,759,324**	**23,156,425**	**-**	**-**	**-**	**-**	**309,874**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Funding

	31.12.2017		31.12.2016	
	Gross	**Net**	**Gross**	**Net**
Financial Assets:	**121,522,584**	**121,522,580**	**140,590,950**	**140,425,071**
- at fair value through profit and loss, held for trading	5,424,642	5,424,642	247,862	247,862
- initially recognized through profit and loss, at fair value	-	-	-	-
- available for sale	116,097,941	116,097,938	139,889,920	139,808,210
- held to maturity	-	-	453,168	368,999
Total	**121,522,584**	**121,522,580**	**140,590,950**	**140,425,071**

Available-for-sale financial assets are placements for which there is an intention to hold them in an unspecified period of time and which can be sold due to liquidity needs 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, the Republic of Srpska, the Republic of Montenegro, 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 evaluation (mark to model) in the case where the prices do not change regularly for a given financial instrument, nor are significant trading volumes recorded, and the model is based on the discounting of cash flows by the yield curve that respects the market conditions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

Loans and receivables from customers covered by collateral

31.12.2017	Nonproblematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,584,525	26,826	-	1,389,709	**39,001,059**	1,638,134	3,069	-	99,104	**1,740,307**
Cash Loans	459,863	458,565	-	11,051,613	**11,970,041**	19,763	7,157	-	216,073	**242,993**
Agricultural Loans	3,060,954	29,580	31,127	2,944,170	**6,065,831**	145,561	-	12	50,521	**196,094**
Other	32,706	6,202	-	117,740	**156,647**	8,968	4	-	2,884	**11,857**
Micro Businesses	2,124,368	556,769	-	6,841,941	**9,523,078**	690,071	9,368	-	481,701	**1,181,140**
Total Retail	**43,262,416**	**1,077,941**	**31,127**	**22,345,172**	**66,716,656**	**2,502,498**	**19,599**	**12**	**850,283**	**3,372,392**
Large Corporate Clients	16,904,885	321,177	6,161,689	13,160,211	**36,547,962**	14,634,237	-	-	2,301,515	**16,935,752**
Middle Corporate Clients	5,117,639	450,957	-	5,860,515	**11,429,111**	1,808,248	-	-	235,632	**2,043,880**
Small Corporate Clients	1,919,093	346,296	9,538	3,538,064	**5,812,991**	1,608,457	14	-	172,103	**1,780,574**
State	397,383	2,261	709,940	5,048,865	**6,158,448**	9,160	0	669,596	72,511	**751,267**
Other	139,047	-	148,486	4,225,593	**4,513,126**	-	18	-	-	**18**
Corporate Clients	**24,478,048**	**1,120,690**	**7,029,652**	**31,833,248**	**64,461,639**	**18,060,101**	**32**	**669,596**	**2,781,761**	**21,511,491**
Total	67,740,464	2,198,631	7,060,779	54,178,421	131,178,295	20,562,599	19,631	669,608	3,632,044	24,883,882
Of which: restructured	**1,212,404**	**24,096**	**207,719**	**569,879**	**2,014,098**	**17,009,448**	**-**	**-**	**2,029,345**	**19,038,793**
Due from banks	**-**	**114,998**	**-**	**305,960**	**407,543**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to zones on the goods, inventory on claims, inventory on equipment, guarantees.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

31.12.2016	Nonproblematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	38,690,411	26,907	-	1,046,336	**39,763,653**	3,139,761	-	-	110,343	**3,250,104**
Cash Loans	478,237	437,440	-	15,047,589	**15,963,266**	111,608	3,588	-	426,844	**542,040**
Agricultural Loans	3,125,684	11,014	63,906	2,664,298	**5,864,902**	221,035	-	1,364	179,919	**402,319**
Other	7,235	5,530	42	133,229	**146,036**	17,089	-	-	18,528	**35,616**
Micro Businesses	2,466,438	756,786	16,228	4,938,025	**8,177,476**	1,106,698	691	343	377,165	**1,484,897**
Total Retail	**44,768,005**	**1,237,677**	**80,176**	**23,829,476**	**69,915,334**	**4,596,191**	**4,279**	**1,707**	**1,112,799**	**5,714,976**
Large Corporate Clients	20,677,755	362,174	490,772	11,332,461	**32,863,162**	18,425,986	-	1,799,847	3,864,613	**24,090,446**
Middle Corporate Clients	9,167,310	744,515	102,332	7,760,441	**17,774,599**	2,628,709	4,197	44,191	1,120,006	**3,797,103**
Small Corporate Clients	3,417,446	467,025	22,475	4,047,884	**7,954,830**	2,652,166	36,336	-	549,040	**3,237,542**
State	502,478	-	1,233,649	3,575,284	**5,311,410**	9,543	-	1,040,837	467,770	**1,518,151**
Other	208,836	2,492	-	4,171,421	**4,382,749**	14,785	2,492	-	8,864	**26,141**
Corporate Clients	**33,973,825**	**1,576,207**	**1,849,228**	**30,887,490**	**68,286,750**	**23,731,189**	**43,026**	**2,884,876**	**6,010,293**	**32,669,383**
Total	**78,741,830**	**2,813,884**	**1,929,404**	**54,716,966**	**138,202,084**	**28,327,380**	**47,305**	**2,886,583**	**7,123,092**	**38,384,359**
Of which: restructured	3,404,231	5,563	-	216,124	3,625,918	21,454,181	4,407	1,892,942	4,113,035	27,464,565
Due from banks	-	-	-	-	-	-	-	-	-	-

* Other collaterals relate to zones on the goods, inventory on claims, inventory on equipment, guarantees.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan To Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

	In thousands of RSD December 31, 2017	December 31, 2016
Less than 50%	28,945,003	31,218,723
50% - 70%	16,739,193	22,389,267
71% - 100%	22,114,046	24,893,963
101% - 150%	9,278,934	9,345,594
More than 150%	17,866,577	25,497,902
Total exposure	**94,943,753**	**113,345,450**
Average LTV	**67,89%**	**65,98%**

4.1.8. Material values acquired by collecting receivables

Security assets taken by Group members in the process of collection of placements are presented in the following review:

In thousands of RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2016	**741,384**	**3,612,206**	**112,973**	**456,997**	**4,923,560**
Acquisition	20,222	75,843	6,209	6,014	108,288
Sale	(8,097)	(697,131)	(18)	-	(705,246)
Transfer to invesment proprety	(11,047)	(6,400)	-	-	(17,447)
Transfer to assets held for sale	(151.359)	(500,352)	(2,196)	(198,620)	(852,528)
Transfer to fixed assets	-	-	-	-	-
Other	(13,932)	(21,644)	(4,068)	(4,110)	(43,754)
31.12.2017	**577,171**	**2,462,522**	**112,900**	**260,281**	**3,412,874**
Impairment Allowances	**216,322**	**1,079,754**	**77,166**	**134,046**	**1,507,288**
Net	**360,849**	**1,382,768**	**35,734**	**126,235**	**1,905,586**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- diversifies sources of funds, by currency and maturity;
- Form and maintain sufficient level of liquidity reserves;
- manages funds;
- Monitor future cash flows and liquidity on a daily basis;
- Limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
- Defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

- GAP analysis;
- Rational analysis;
- Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

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

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. Starting from 30.06.2017. The Group has aligned its operations with a liquid asset coverage indicator in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		**Rigid/Cash Liquidity Ratio**		**Indicator of liquid assets coverage**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
As at December 31	4.13	2.88	3.92	2.55	415%	-
Average for the period	4.71	2.97	4.38	2.55		
Maximum for the period	5.29	3.56	4.83	3.12	-	-
Minimum for the period	4.13	1.91	3.92	1.69	-	-

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

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

Compliance with internally defined liquidity limits on the last day:

	Limits	**2017**	**2016**
GAP up to 1 month / Total assets	Max (10%)	1.43%	6.50%
Cumulative GAP up to 3 months / Total assets	Max (20%)	4.66%	9.61%

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2017

In thousands of 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	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,200,198	3,844,150	136,513	1,052,694	-	30,233,555
Loans and receivables due from customers	10,870,090	9,074,983	36,092,091	74,507,110	43,697,865	174,242,139
Financial assets (securities)	4,818,794	14,000,125	19,972,101	82,037,900	693,660	121,522,580
Other assets	2,064,500	1,370,393	146,640	215,961	493,178	4,290,672
Total	**99,030,330**	**28,289,651**	**56,347,345**	**157,813,665**	**44,884,703**	**386,365,694**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,648,799	1,113,674	915,645	1,459,658	-	6,137,776
Deposits and other liabilities due to customers	222,453,947	13,741,808	52,687,717	26,464,168	2,230,108	317,577,748
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	5,248,237	91,973	1,636,303	38,286	-	7,014,799
Total	**230,350,983**	**14,947,455**	**55,239,665**	**27,962,112**	**2,230,108**	**330,730,323**
Net liquidity gap As of December 31, 2017	**(131,320,653)**	**13,342,196**	**1,107,680**	**129,851,553**	**42,654,595**	**55,635,371**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2016

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	61,919,102	-	-	-	-	61,919,102
Loans and receivables due from other banks and other financial institutions	38,699,907	3,416,190	76,258	1,003,021	21,305	43,216,681
Loans and receivables due from customers	10,316,061	10,959,317	40,699,071	64,663,910	39,762,649	166,401,008
Financial assets (securities)	4,860,113	13,506,392	47,165,297	73,000,869	1,892,400	140,425,071
Other assets	2,106,213	-	3,283	1,124,843	-	3,234,339
Total	**117,901,396**	**27,881,899**	**87,943,909**	**139,792,643**	**41,676,354**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,184,279	1,163,266	2,059,354	3,392,393	23,227	9,822,519
Deposits and other liabilities due to customers	229,259,980	17,393,516	68,559,020	27,635,316	2,288,127	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,681,633	-	1,047,493	-	-	5,729,126
Total	**237,125,892**	**18,556,782**	**77,844,257**	**31,027,709**	**2,311,354**	**366,865,994**
Net liquidity gap As of December 31, 2016	**(119,224,496)**	**9,325,117**	**10,099,652**	**108,764,934**	**39,365,000**	**48,330,207**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and sight deposits will be withdrawn within one month.

The Group collects deposits of legal persons and households, who usually have shorter deadlines and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk management by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted Cash Flows of Monetary Assets and Monetary Liabilities as at 31 December 2017

In thousands of 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	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,209,287	3,847,610	151,359	1,058,968	-	30,267,224
Loans and receivables due from customers	11,635,049	10,508,677	41,814,152	90,500,227	57,585,533	212,043,638
Financial assets (securities)	4,680,261	14,026,774	20,038,891	82,519,852	718,340	121,984,118
Other assets	2,533,852	1,370,393	146,639	215,960	493,178	4,760,022
Total	**100,135,197**	**29,753,454**	**62,151,041**	**174,295,007**	**58,797,051**	**425,131,750**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,652,413	1,143,859	959,611	1,557,409	-	6,313,292
Deposits and other liabilities due to customers	222,550,508	13,880,143	53,290,370	27,404,904	2,662,841	319,788,766
Other liabilities	5,274,736	91,973	1,636,303	38,286	-	7,041,298
Total	**230,477,657**	**15,115,975**	**55,886,284**	**29,000,599**	**2,662,841**	**333,143,356**
Net liquidity gap						
As of December 31, 2017	**(130,342,460)**	**14,637,479**	**6,264,757**	**145,294,408**	**56,134,210**	**91,988,394**

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted Cash Flows of Monetary Assets and Monetary Liabilities as at 31 December 2016

In thousands of RSD

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and sight deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

Market risks

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

- Risk of time mismatch of repayment and repricing risk;
- Yield curve risk - to whom it is exposed due to change in yield curve shape;
- Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
- optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.
Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

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

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate 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 monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

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

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2017.	2016.
Relative GAP	Max 15%	2.04%	1.02%
Coefficient of Disparity	0.75 - 1.25	1.02	1.01

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

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Compliance with internally defined limits of economic value of capital:

	2017	2016
On December 31st	4.46%	3.64%
Average for period	4.93%	4.40%
Maximum for period	5.39%	5.16%
Minimum for period	4.46%	3.64%
Limit	**20%**	**20%**

Exposure to interest rate risk can also be seen on the basis of the GAP Statement of Interest Rate Risk of Monetary Assets and Liabilities.

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2017

In thousands of 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	16,820,938	-	-	-	-	16,820,938	39,255,810	56,076,748
Loans and receivables due from banks and other financial institutions	24,344,964	3,838,711	112,967	85,384	-	28,382,026	1,851,529	30,233,555
Loans and receivables due from customers	51,036,588	13,982,811	41,227,020	54,787,837	12,715,701	173,749,957	492,182	174,242,139
Financial assets (securities)	4,680,160	14,000,125	19,972,102	82,037,900	693,660	121,383,947	138,633	121,522,580
Other assets							4,290,672	4,290,672
Total	**96,882,650**	**31,821,647**	**61,312,089**	**136,911,121**	**13,409,361**	**340,336,868**	**46,028,826**	**386,365,694**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,657,555	2,654,829	196,475	626,327	22,396	6,157,582	-19,806	6,137,776
Deposits and other liabilities due to customers	224,541,827	16,025,194	50,859,171	23,763,258	1,329,434	316,518,884	1,058,864	317,577,748
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	7,014,799	7,014,799
Total	**227,199,382**	**18,680,023**	**51,055,646**	**24,389,585**	**1,351,830**	**322,676,466**	**8,053,857**	**330,730,323**
Interest rate GAP -At December 31, 2017	**(130.316.732)**	**13.141.624**	**10.256.443**	**112.521.536**	**12.057.531**	**17.660.402**	**37.974.969**	**55.635.371**

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on the GAP interest rate risk of the monetary sub-balance on December 31, 2016

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	23,524,673	-	-	-	-	23,524,673	38,394,429	61,919,102
Loans and receivables due from banks and other financial institutions	35,741,374	3,416,217	76,232	202,204	34,637	39,470,664	3,746,017	43,216,681
Loans and receivables due from customers	59,600,330	14,219,797	42,293,851	35,395,821	14,747,903	166,257,702	143,306	166,401,008
Financial assets (securities)	12,391,581	12,256,667	40,730,939	72,860,863	1,937,183	140,177,233	247,838	140,425,071
Other assets	-	-	-	-			3,234,339	3,234,339
Total	**131,257,958**	**29,892,681**	**83,101,022**	**108,458,888**	**16,719,723**	**369,430,272**	**45,765,929**	**415,196,201**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,257,587	4,270,624	1,702,744	560,589	23,228	9,814,772	7,747	9,822,519
Deposits and other liabilities due to customers	233,151,725	20,049,705	65,964,760	22,982,847	1,340,515	343,489,552	1,646,407	345,135,959
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,677,316	5,729,126
Total	**236.409.312**	**24.320.329**	**73.845.894**	**23.543.436**	**1.363.743**	**359.482.714**	**7.383.280**	**366.865.994**
Interest rate GAP -At December 31, 2017	**(105.151.354)**	**5.572.352**	**9.255.128**	**84.915.452**	**15.355.980**	**9.947.558**	**38.382.649**	**48.330.207**

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and sight deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

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

In modeling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Group on the basis of historical developments and expert assessments, is specifically considered, the Group has carried out an estimate of the movement of transaction deposits, demand deposits and household savings by applying relevant statistical models from domain analysis of time series.

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2017 (continued)

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2017		
At 31 December	346,780	(346,780)
2016		
At 31 December	506,708	(506,708)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, 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 dinar (RSD) positions indexed by currency clause.

In order to minimize exposure to foreign exchange risk, the Group 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 Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

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

The Group comprehensively identifies in a timely manner 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.

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

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

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

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

Foreign exchange risk control and monitoring includes monitoring and monitoring the 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 enabled timely measures to be taken to maintain foreign exchange 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 monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2017	2016
Total risk foreign exchange position	7,308,623	6,153,467
Foreign exchange risk indicator	14,29%	11,86%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2017

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,980,237	194,101	532,982	4,276,526	**37,983,846**	-	-	-	18,092,902	**56,076,748**
Loans and receivables due from banks and other financial institutions	6,417,542	3,332,450	2,695,986	2,271,811	**14,717,788**	227,865	-	-	15,287,901	**30,233,555**
Loans and receivables due from customers	18,945,728	-	-	2,838,679	**21,784,407**	105,852,986	-	4,011,996	42,592,750	**174,242,139**
Financial assets (securities)	72,837,246	9,474,357	1,782,330	164,417	**84,258,350**	1,947,199	-	-	35,317,031	**121,522,580**
Other assets	1,676,506	262,767	887	153,019	**2,093,179**	-	-	-	2,197,493	**4,290,672**
Total	**132,857,259**	**13,263,675**	**5,012,185**	**9,704,452**	**160,837,571**	**108,028,051**	**-**	**4,011,996**	**113,488,077**	**386,365,695**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,887,061	34,162	20,137	209,334	**3,150,694**	2,388,808	-	-	598,274	**6,137,776**
Deposits and other liabilities due to customers	224,706,977	11,783,751	8,757,887	6,447,725	**251,696,340**	6,666,426	18,890	-	59,196,092	**317,577,748**
Subordinated liabilities	-	-	-	-	**-**	-	-	-	-	**-**
Other liabilities	1,394,516	1,027,312	84,513	100,363	**2,606,704**	8,921	-	-	4,399,174	**7,014,799**
Total	**228,988,554**	**12,845,225**	**8,862,537**	**6,757,422**	**257,453,738**	**9,064,155**	**18,890**	**-**	**64,193,540**	**330,730,323**
Net Currency Position, 31 December 2017	**(96,131,295)**	**418,450**	**(3,850,352)**	**2,947,030**	**(96,616,167)**	**98,963,896**	**(18,890)**	**4,011,996**	**49,294,537**	**55,635,372**

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4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2016

In thousand RSD

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

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and / or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2017 and 2016 is shown as follows:

	In thousands of RSD			
	Per daz December 31	**Average**	**Maximum**	**Minimal**
2017				
Foreign currency risk	28,582	30,447	55,893	17,137
2016				
Foreign currency risk	17,477	31,003	79,538	10,576

4. RISK MANAGEMENT (continued)

4.6. Operational risk

The Group members of the Group monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database, the organizational part of the Bank of the Group member Group in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and / or qualitative assessment of the identified operational risk. The Group members of the Group conduct measurement of operational risk exposure through event logging, self-evaluation and stress testing of operational risk. Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures. The stress test is an operational risk management technique, which assesses the potential impact of specific events and / or changes in several risk factors for exposure to operational risk.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

The Group can’t eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Banking Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Banking Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4. RISK MANAGEMENT (continued)

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:

- Exposure to a single person or a group of related parties must not exceed 25% of the Group's capital;
- The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one person or a group of related parties also apply to persons associated with the Group.

The Group's exposure to one entity or group of related parties, as well as the exposure to persons related to the Group, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

▸ Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

▸ Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of claims according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

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4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of 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	174,242,139	172,486,614	-	-	172,486,614	166,401,008	163,877,512
Financial assets held to maturity		-	-	-	-	368,999	368,999
Financial Liabilities							
Deposits and other liabilities due to customers	317,577,748	317,597,843			317,597,843	345,135,959	345,083,711

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to loan users, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Group would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Group.

The fair value of investment securities held to maturity is estimated using market prices or by using discounted cash flow models based on current market interest rates offered for instruments of a similar product. Held-to-maturity investments are matured and book values are equally fair.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousands of 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	572,576	4,852,066	-	5,424,642
Securities available for sale (in RSD)	1,888,350	33,137,523	-	35,025,872
Securities available for sale (in foreign currency)	2,190,531	78,548,757	332,778	81,072,066
Total	**4,651,457**	**116,538,346**	**332,778**	**121,522,580**

In thousands of RSD

31.12.2016	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and	247,862	-	-	247,862
Securities available for sale (in RSD)	2,038,226	43,313,154	-	45,351,380
Securities available for sale (in foreign currency)	50,688,672	106,272,066	431,303	94,456,830
Total	**52,974,760**	**149,585,220**	**431,303**	**140,056,072**

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 in banking market is classified into level 3.

4. RISK MANAGEMENT (continued)

4.11. Capital management

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

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

The main goals of managing the capital are:
- Preservation 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 regulatory capital of the banking group is the sum of the share capital (consisting of the basic share capital and additional equity capital) and the supplementary capital, deducted for the deductible items. Capital adequacy ratios represent the equity ratio of the Group (total, basic or basic share) and collects: the risk weighted exposure to credit risk, counterparty risk, the risk of a decrease in the value of purchased receivables and the risk of settlement / delivery on the basis of free delivery, settlement / 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 the free delivery of the banking group shall be determined in accordance with the prescribed risk weight for all classes of assets. Risk assets based on operational risk exposure 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.

The capital requirement for foreign exchange risk at the level of the banking group is equal to the sum of individual capital requirements for this risk of all members of the banking group, where the sum of net open foreign exchange positions and absolute open positions in gold is greater than 2% of their capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

Capital adequacy ratios **In thousands of RSD**

	31.12.2017	31.12.2016
Basic capital	57,278,280	47,588,844
Basic share capital	56,904,770	-
Additional share capital	373,510	-
Supplementary capital	-	4,425,745
Deductible items of equity	(6,119,492)	(121,681)
Capital	**51,158,788**	**51,892,908**
Capital adequacy ratio (min 12.17%) 24.56% -		
Risk of weighted exposure to credit risk, counterparty risk, risk of decreased value of purchased receivables and risk of delivery / delivery on the basis of free delivery	168,012,566	172,570,019
Risk assets based on operational risk exposure	33,979,411	23,173,092
Risk assets based on market risk exposure	6,349,897	2,720,463
Capital adequacy ratio (мin. 14.17%)	**24.56%**	**26.15%**
Capital adequacy ratio (мin. 12.17%)	**24.56%**	**-**
Indicator of the share capital adequacy ratio (мin. 10.67%)	**24.38%**	**-**

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

4. RISK MANAGEMENT (continued)

4.11. 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 adequacy of total, basic and basic equity capital respectively) .

By the Capital Management Strategy, the Bank Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2017, the Group calculated an indicator of leverage in accordance with the regulatory requirement, which represents the ratio of the basic 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 Group 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 banking Group is exposed or may be exposed,
- Provides adequate available internal capital in accordance with the risk profile of the banking group,
- is involved in the banking group management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- determining the total internal capital requirement for individual risks;
- determining the total internal capital requirement;
- Comparison of the following elements:
    1) capital and available internal capital;
    2) minimum capital requirements and internal capital requirements for individual risks;
    3) the collection of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are accounted for using the depreciated cost method are assessed for impairment in the manner described in accounting policy 3 (j) (vii).

A portion 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.

Grouped provisions cover credit losses that are included in the portfolio of loans and securities held to maturity, which contain similar credit risk characteristics due to objective evidence of impairment but which can't yet be identified. When assessing the need for a group loss provision, the management takes into account factors such as loan quality, portfolio size, risk concentration and economic factors. In order to estimate the required provision, assumptions are made to define the method for modeling the losses contained in the portfolio and determining the necessary input parameters, based on historical experience and current economic circumstances. The accuracy of the provision depends on the estimation of future cash flows for individual counterparties, as well as on the assumptions and model parameters used when determining group provisions.

Determination of fair value

Determining the fair value of financial assets and liabilities for which there is no market price requires the use of valuation techniques described in accounting policy 3 (j) (vi). For financial instruments that are rarely traded and whose price is not very transparent, fair value is less objective and requires varying degrees of estimation, depending on liquidity, concentration, uncertainty of market factors, price assumptions, and other risks related to individual instruments.

Key accounting estimates for the application of the Group's accounting policies

Key accounting estimates in the application of the Group's accounting policies include:

Impairment of investments in equity securities

Investments in equity securities are assessed for impairment in the manner described in accounting policies 3(j) (vii) and 3(lj)

Evaluation of financial instruments

The Group's accounting policies regarding fair value measurement are disclosed in accounting policy 3(j) (vi).

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5. USE OF ASSESSMENT (continued)

Members of the Group measure fair value of financial assets using the following hierarchy regarding the quality of the input data used for valuation:

- Level 1: Official market prices (uncorrected) in the active market for identical instruments.
- Level 2: Evaluation techniques based on input data that are not market prices for identical instruments, but information is available and visible either directly (for example, prices) or indirectly (for example derived from the price). This category includes instruments that are measured through: official market prices in the active market for similar instruments, official market prices for the same or similar instruments in the market that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly available at market.
- Level 3: Evaluation techniques that use input data that are not available and visible. This category includes all instruments that are assessed on an input basis that are not available and visible and as such have a significant effect on the valuation of the instrument.

This category includes instruments that are valued on the basis of the official price for similar instruments, where significant adjustments or assumptions are needed to reflect differences between instruments.

Fair values of financial assets and financial liabilities traded on an active market are based on market prices or at prices offered by dealers. For all other financial instruments, the members of the Group determine the fair value using the valuation methods.

Evaluation methods include net present value and discounted cash flows, comparisons with similar instruments for which there are noticeable market prices, as well as other valuation methods. Assumptions and inputs used for valuation methods include risky and benchmark interest rates, credit ranges, and other factors used when estimating discount rates, bonds and equity prices, foreign exchange rates, equity, and capital price indices, and expected price volatility and correlations. The objective of the estimation method is to establish the fair value that reflects the price of a financial instrument on the balance sheet date that would be established by the market participants in an out-of-reach transaction.

The Group uses commonly accepted valuation models to determine the fair value of ordinary and simpler financial instruments, such as interest swaps and currencies for which exclusively marketable data is used and which require a low level of appreciation and assumptions from the management. Detectable and input model data are generally available on the market of quoted debt and equity securities, traded derivatives and simple derivatives such as interest swaps.

The availability of noticeable market prices and model input data reduces the need for management's estimates and assumptions, and also reduces the uncertainty associated with determining fair value. The availability of noticeable market prices and input data is generally different, depending on product and market, and is prone to changes due to different events and general conditions in future markets.

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December 31, 2017

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The parent bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (note 6.1.) And
- Reporting by operational segments - business lines (note 6.2.).

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

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Budva, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Investment fund management company a.d Belgrade, Serbia	It includes investment fund management activities

The parent bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Dependent legal entities are not material to the individual financial report of the parent bank.

The balance sheet of the parent bank amounts to 92.9% of the total balance sheet total of the consolidated balance sheet (2016: 92.6%).

The balance sum of Komercijalna banka ad, Budva amounts to 3.05% of total consolidated assets (2016: 3.1%), Komercijalna banka ad, Banja Luka 4.04% (2016: 4.3%) and KomBank INVEST 0.01 % (2016: 0.002%).

The result of the strategic segment is used to measure business performance, since the management of the parent bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

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6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 7,226,876 thousand (2016: RSD 6,387,271 thousand). The income statement was eliminated from the income statement in the amount of RSD 68,429 thousand (2016: RSD 35,729 thousand) and expenditures in the amount of RSD 43,414 thousand (2016: RSD 19,467 thousand).

Balance sheet 2017

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
407,335,192	**7,226,876**	**400,108,316**
Cash / Payables	1,192	
Placements / Liabilities	1,744,796	
Deposits / Capital	5,480,888	

Income Statement 2017

In thousands of RSD

Collective unconsolidated profit in the Income statement (before taxes)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	expense	
7,341,399	**68,429**	**43,414**	**7,316,383**
Interest	4,061	4,061	
Fees	9,469	9,469	
Exchange rate differences (reclassified to equity)	54,899	29,884	

Balance sheet 2016

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
435,214,879	**6,387,271**	**428,827,608**
Cash / Payables	723,575	
Placements / Liabilities	182,809	
Deposits / Capital	5,480,888	

Income Statement 2016

In thousands of RSD

Collective unconsolidated profit in the Income statement (before taxes)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	expenses	
(6,549,948)	**35,729**	**19,467**	**(6,533,686)**
Interest	5,110	5,110	
Fees	9,377	9,377	
Exchange rate differences (reclassified to equity)	21,242	4,980	

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6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2017

For each of the strategic organizational parts, the management of the Home Bank controls the internal management reports at least on a quarterly basis. Below is a review of the activities of strategic segments from the consolidated balance sheet and the consolidated profit and loss account for 2017 and 2016:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	49,840,887	2,366,019	3,869,842	-	56,076,748
Financial assets at fair value through profit and loss, held for trading	5,269,709	-	-	154,933	5,424,642
Financial assets available for sale	112,019,058	2,300,043	1,778,837	-	116,097,938
Loans and receivables due from banks and other financial institutions	29,047,033	778,990	407,532	-	30,233,555
Loans and receivables due from customers	153,897,367	7,104,793	13,239,979	-	174,242,139
Intangible assets	460,263	10,308	27,816	-	498,387
Property, plant and equipment	5,655,248	305,336	56,586	30	6,017,200
Investment property	1,988,608	112,256	279,700	-	2,380,564
Current tax assets	-	-	5,622	-	5,622
Deferred tax assets	857,096	6,431	-	-	863,527
Fixed assets held for sale and assets from discontinued operations	241,148	310,676	235,794	-	787,618
Other assets	6,798,285	506,853	173,478	1,760	7,480,376
TOTAL ASSETS	**366,074,702**	**13,801,705**	**20,075,186**	**156,723**	**400,108,316**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2017 (continued)

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Financial liabilities at fair value through profit and loss for trading	7,845	-	-	-	7,845
Deposits and other liabilities due to banks, other financial institutions and the Central bank	3,283,494	196,445	2,657,837	-	6,137,776
Deposits and other liabilities due to customers	292,471,640	11,960,678	13,145,430	-	317,577,748
Provisions	1,368,051	162,331	15,848	5,653	1,551,883
Current tax liabilities	-	47	1,672	32	1,751
Deferred tax liabilities	-	-	1,647	-	1,647
Other liabilities	7,543,442	83,554	101,032	1,522	7,729,550
Total liabilities	**304,674,472**	**12,403,055**	**15,923,466**	**7,207**	**333,008,200**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	7,341,571	(772,527)	113,036	9,334	6,691,414
Reserves	19,645,901	586,110	141,964	112	20,374,087
Non-controlling shares	-	-	65	-	65
Total equity	**67,022,022**	**(186,417)**	**255,065**	**9,446**	**67,100,116**
Total liabilities and equity	**371,696,494**	**12,216,638**	**16,178,531**	**16,653**	**400,108,316**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2016:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total:
ASSETS					
Cash and cash funds held with the central bank	55,153,209	2,421,787	4,344,106	-	61,919,102
Financial assets at fair value through profit and loss, held for trading	242,920	-	-	4,942	247,862
Financial assets available for sale	136,123,853	2,627,938	1,056,419	-	139,808,210
Financial assets held to maturity	-	368,999	-	-	368,999
Loans and receivables due from banks and other financial institutions	40,418,884	490,798	2,306,999	-	43,216,681
Loans and receivables due from customers	150,411,409	5,860,668	10,128,931	-	166,401,008
Intangible assets	362,507	12,826	19,213	-	394,546
Property, plant and equipment	5,856,458	347,360	47,319	50	6,251,187
Investment property	2,217,816	118,842	271,393	-	2,608,051
Current tax assets	-	-	7,283	-	7,283
Fixed assets held for sale and assets from discontinued operations	183,170	-	166,353	-	349,523
Other assets	6,252,584	963,105	37,976	1,491	7,255,156
TOTAL ASSETS	**397,222,810**	**13,212,323**	**18,385,992**	**6,483**	**428,827,608**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2016 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to banks, other financial institutions and the Central bank	7,111,380	256,639	2,454,500	-	9,822,519
Deposits and other liabilities due to customers	322,621,360	10,726,250	11,788,349	-	345,135,959
Subordinated liabilities	6,178,390	-	-	-	6,178,390
Provisions	1,787,294	204,768	28,647	798	2,021,507
Current tax liabilities	-	7,543	746	738	9,027
Deferred tax liabilities	23,592	25,451	4,414	-	53,457
Other liabilities	6,147,567	79,092	86,251	1,419	6,314,329
Total liabilities	**343,869,583**	**11,299,743**	**14,362,907**	**2,955**	**369,535,188**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(5,584,250)	(953,509)	26,197	8,873	(6,502,689)
Reserves	25,026,243	563,736	170,665	(151)	25,760,493
Non-controlling shares	-	-	66	-	66
Total equity	**59,476,543**	**(389,773)**	**196,928**	**8,722**	**59,292,420**
Total liabilities and equity	**403,346,126**	**10,909,970**	**14,559,835**	**11,677**	**428.827.608**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2017

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	14,048,478	570,143	739,378	400	15,358,399
Interest expenses	(1,606,137)	(76,856)	(158,168)	-	(1,841,161)
Net interest income	**12,442,341**	**493,287**	**581,210**	**400**	**13,517,238**
Fee and commission income	6,692,276	190,745	254,228	22,258	7,159,507
Fee and commission expenses	(1,616,461)	(44,896)	(84,273)	(276)	(1,745,906)
Net fee and commission income	**5,075,815**	**145,849**	**169,955**	**21,982**	**5,413,601**
Net gains on the financial assets held for trading	103,798	-	-	5,102	108,900
Net gains on the financial assets available for sale	44,323	534	10,386	-	55,243
Net foreign exchange losses and negative currency clause effects	(111,257)	24,405	9,430	20	(77,402)
Other operating income	938,083	22,482	20,059	23	980,341
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	17,883	2,356	16,103	-	36,342
Total operating income	**18,510,986**	**688,913**	**807,143**	**27,527**	**20,034,569**
Staff costs	(4,520,197)	(281,361)	(315,193)	(14,061)	(5,130,812)
Depreciation and amortization charge	(563,582)	(25,234)	(36,844)	(20)	(625,680)
Other expenses	(6,305,123)	(297,342)	(348,142)	(11,087)	(6,961,694)
(Loss)/Profit before taxes	**7,122,084**	**84,976**	**106,964**	**2,359**	**7,316,383**
Income tax	-	(46)	(9,300)	(35)	(9,381)
Gain on deferred taxes	1,335,828	29,978	898	-	1,366,704
Loss on deferred taxes	(405,710)	-	-	-	(405,710)
Profit/(loss) for the year	**8,052,202**	**114,908**	**98,562**	**2,324**	**8,267,996**
The gain that belongs to owners without the right of control	**-**	**-**	**1**	**-**	**1**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2016

In thousands of RSD

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

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The parent bank has three operating segments:

- Transactions with legal entities Parent banks - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the parent bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the dependent members of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under note 6.1, and that the parent bank is more of 92% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, dependent members of the Group are shown under a single segment (Subsidiaries).

When looking at the profitability / outcome of each matrix of the Matrix, besides revenues and expenditures generated from client transactions, the income and expenses from internal relations between the segments of the Parent Bank are calculated by means of transfer prices determined on the basis of the respective market prices (net income / expenses from internal relations), as well as part of the net income / expenses that the parent Bank reported from the operations with subsidiaries.

Significant impact on the result in 2017 had net indirect write-offs amounting to RSD 36,342 thousand (of which the collected written off receivables amounted to RSD 738,593 thousand). In addition to the net income of indirect write-offs, the court's dispute in the amount of RSD 562,745 thousand was also affected by the amount of the results.

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 indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 8,546,404 thousand and account for 70.5% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (wages, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,783,836 thousand of direct costs (67.7% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above, the Group achieved profit before tax in the business year 2017 in the amount of RSD 7,316,383 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2017 is shown below:

31.12.2017	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,367,966	2,649,990	5,030,522	-	1,309,921	-	15,358,399
Interest expenses	(880,868)	(224,091)	(501,178)	-	(235,024)	-	(1,841,161)
Net interest income	5,487,098	2,425,899	4,529,344	-	1,074,897		13,517,238
Net income/expenses from related party transactions	(886,255)	(768,155)	1,658,266	-	(3,856)	-	-
Net fees	3,198,742	1,290,502	586,570	-	337,787	-	5,413,601
Net fees from related party transactions	-	-	6,412	-	(6,412)	-	-
Profit before impairment allowance	7,799,585	2,948,260	6,780,592	-	1,402,416	-	18,930,839
Net gains/losses from impairment allowance	(310,881)	266,530	62,234	-	18,459	-	36,342
Profit before operating expenses	7,488,704	3,214,776	6,842,826	-	1,420,875	-	18,967,181
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(907,162	-	(8.546,404)
Net exchange rate gain/(loss)	-	-	(111,257)	-	33,855	-	(77,402)
Net exchange difference from related parties transactions	-	-	54,899	-	(29,884)	(25,015)	-
Net other income/(expenses)	(82,584)	557,765	55,202	-	15,732	-	546,115
Profit before indirect operating expenses	1,622,284	2,099,822	6.658.983	-	533,416	(25,015)	10,889,490
Indirect operating expenses	(1,612,287)	(1,237,636)	(343,916)	-	(379,268)	-	(3,573,107)
Profit before taxes	**9,997**	**862,186**	**6,315,067**	**-**	**154,148**	**(25,015)**	**7,316,383**

Notes: Placements to microclients are presented within the segment of retail business
Indirect operating costs relate to expenditures that are not under the control of business segments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2017 is shown below (continued):

31.12.2017	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Assets per segment							
Cash and cash equivalents	-	-	49,840,887	-	6,235,861	-	56,076,748
Cash from related parties transactions	-	-	-	-	1,192	(1,192)	-
Placements with banks	-	-	29,047,033	-	1,186,522	-	30,233,555
Placements with banks from related parties transactions	-	-	496,756	-	1,247,819	(1,744,575)	-
Placements with customers	81,512,171	72,385,196	-	-	20,344,772	-	174,242,139
Investment securities	-	-	117,288,767	-	4,233,813	-	121,522,580
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	16,000,648	2,032,646	-	18,033,294
Other from related parties transactions	-	-	-	221	-	(221)	-
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**35,282,625**	**(4,357,847)**	**400,108,316**
Liabilities per segment							
Liabilities to banks	-	-	3,283,494	-	2,854,282	-	6,137,776
Liabilities to banks from related parties transactions	-	-	1,249,011	-	496,756	(1,745,767)	-
Liabilities to customers	230,900,337	52,610,572	8,960,731	-	25,106,108	-	317,577,748
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	8,919,338	373,338	-	9,292,676
Other from related parties transaction	-	-	-	-	221	(221)	-
	230,900,337	**52,610,572**	**13,493,236**	**8,919,338**	**28,830,705**	**(1,745,988)**	**333,008,200**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2016 is shown below:

31.12.2016	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,622,978	3,806,948	6,254,043	-	1,250,850	-	17,934,819
Interest expenses	(1,680,595)	(409,129)	(1,136,613)	-	(252,149)	-	(3,478,486)
Net interest income	4,942,383	3,397,819	5,117,430	-	998,701		14,456,333
Net income/expenses from related party transactions	(434,154)	(1,166,544)	1,605,800	-	(5,102)	-	-
Net fees	3,040,383	1,335,521	437,705	-	279,914	-	5,093,523
Net fees from related party transactions	-	-	3,705	-	(3,705)	-	-
Profit before impairment allowance	7,548,612	3,566,796	7,164,640	-	1,269,808	-	19,549,856
Net gains/losses from impairment allowance	(858,376)	(11,021,735)	(158,399)	-	(1,040,987)	-	(13,079,497)
Subsidiaries imapairment allowance	-	-	(2,869,029)	-	-	2,869,029	-
Profit before operating expenses	6,690,236	(7,454,939)	4,137,212	-	228,821	2,869,029	6,470,359
Direct operating expenses	(5,250,911)	(1,841,981)	(292,810)	-	(850,273)	-	(8,235,975)
Net exchange rate gain/(loss)	-	-	11,662	-	(5,586)	-	6,076
Net exchange difference from related parties transactions	-	-	(20,944)	-	4,682	16,262	-
Net other income/(expenses)	(18,075)	(555,513)	(80,417)	-	7,106	-	(646,899)
Profit before indirect operating expenses	1,421,250	(9,852,433)	3,754,703	-	(615,250)	2,885,291	(2,406,439)
Indirect operating expenses	(2,020,778)	(1,340,184)	(340,194)	-	(426,091)	-	(4,127,247)
Profit before taxes	**(599,528)**	**(11,192,617)**	**3,414,509**	**-**	**(1,041,341)**	**2,885,291**	**(6,533,686)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2016 is shown below (continued):

31.12.2016	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Assets per segment							
Cash and cash equivalents	-	-	55.153.209	-	6.765.893	-	61.919.102
Cash from related parties transactions	-	-	-	-	723.575	(723.575)	-
Placements with banks	-	-	40.418.884	-	2.797.797	-	43.216.681
Placements with banks from related parties transactions	-	-	182.530	-	6	(182.536)	-
Placements with customers	75.323.551	75.087.858	-	-	15.989.599	-	166.401.008
Investment securities	-	-	136.366.773	-	4.058.298	-	140.425.071
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	14.872.536	1.993.210	-	16.865.746
Other from related parties transactions	-	-	-	270	2	(272)	-
	75.323.551	75.087.858	234.733.255	14.872.806	32.328.380	(3.518.242)	428.827.608
Liabilities per segment							
Liabilities to banks	-	-	7.111.380	-	2.711.139	-	9.822.519
Liabilities to banks from related parties transactions	-	-	723.581	-	182.530	(906.111)	-
Liabilities to customers	232.633.347	78.399.262	11.588.751	-	22.514.599	-	345.135.959
Subordinated liabilities	-	-	6.178.390	-	-	-	6.178.390
Other	-	-	-	7.958.453	439.867	-	8.398.320
Other from related parties transactions	-	-	-	2	270	(272)	-
	232.633.347	78.399.262	25.602.102	7.958.455	25.848.405	(906.383)	369.535.188

Notes: Placements to microclients are presented within the segment of retail business.
Indirect operating costs relate to expenditures that are not under the control of business segments

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

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST INCOME

Net interest income consists of:

	In thousands of RSD For the year that ends December 31, 2017	**2016**
Placements with banks	304,534	374,300
Placements with customers	10,138,393	11,532,107
Central Bank	371,056	475,643
Investment securities	4,544,416	5,552,769
Interest income	**15,358,399**	**17,934,819**
Liabilities to banks and other financial organizations	(136,386)	(301,021)
Liabilities to customers	(1,282,452)	(2,393,200)
Received loans	(422,323)	(784,265)
Interest expense	**(1,841,161)**	**(3,478,486)**
Net interest income	**13,517,238**	**14,456,333**

Total interest income and expense accounted for using the effective interest method presented in the previous table relates to financial assets and liabilities not carried at fair value through profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

9. NET INCOME / (EXPENSES) FROM THE FEE AND COMMISSION

Net fee and commission income / (expenses) consist of:

	In thousands of RSD For the year that ends December 31 2017	2016
Income in RSD		
Fees for payment services	3,243,428	3,050,088
Fees for granted loans and guarantees-households	28,845	27,006
Fees for granted loans and guarantees-economy	152,973	183,068
Fee for purchase of foreign currency	455,964	453,082
Fee for brokerage and custody services	36,505	62,001
Card payment fees	1,795,588	1,540,401
Fees based on inquiries in the Credit Bureau	87,771	88,011
Fees and commissions for other banking services	561,413	617,090
	6,362,487	**6,020,747**
Revenues in foreign currency		
Fees for payment services	344,999	309,446
Fees for granted loans and guarantees-economy	34,376	29,804
Fee for brokerage and custody services	12,778	9,011
Card payment fees	285,881	176,070
Fees and commissions on other banking services	118,986	98,211
	797,020	**622,542**
	7,159,507	**6,643,289**
Expenditures in RSD		
Fees for payment services	(125,732)	(121,816)
Fees based on the purchase of foreign currency	(64,340)	(33,396)
Card payment fees	(770,319)	(520,990)
Fees based on inquiries in the Credit Bureau	(78,149)	(72,978)
Fees and commissions from other banking servicest	(138,458)	(146,738)
	(1,176,998)	**(895,918)**
Expenditures in foreign currency		
Fees for payment services	(93,909)	(83,444)
Card payment fees	(392,177)	(351,700)
Fees and commissions from other banking services	(82,822)	(218,704)
	(568,908)	**(653,848)**
	(1,745,906)	**(1,549,766)**
Net profit from fee and commission	**5,413,601**	**5,093,523**

10. NET PROFIT ON THE BASIS OF FINANCIAL ASSETS INTENDED FOR TRADING

Net gains on the financial assets held for trading include:

	In thousands of RSD For the year that ends December 31 2017	2016
Gains on the fair value adjustment of securities – investment units	17,934	3,141
Gains on the fair value adjustment of securities – bonds	51,739	-
Gains on the sales of securities at fair value through profit and loss	47,280	75,897
Total revenues	**116,953**	**79,038**
Expenses from the change in the fair value of derivatives held for trading - SWAP	(7,845)	-
Losses on the fair value adjustment of securities – investment units	(208)	(34)
Losses on the sales of securities and other financial assets held for trading	-	(2,681)
Total expenditures	**(8,053)**	**(2,715)**
Net trading gain	**108,900**	**76,323**

11. NET PROFIT ON THE BASIS OF FINANCIAL ASSETS AVAILABLE FOR SALE

Net sales gain consists of:

	In thousands of RSD For the year that ends December 31 2017	2016
Gains on the sale of securities available for sale	55,454	195,433
Losses on the sale of securities available for sale	(211)	(865)
Net gains on the financial assets available for sale	**55,243**	**194,568**

Gains arising from the sale of securities available for sale in the amount of RSD 55,454 thousand refer to gains from the sale of Serbian government bonds in RSD in the amount of RSD 44,081 thousand and in foreign currency in the amount of RSD 11,373 thousand.

Losses on securities available for sale in the amount of RSD 211 thousand relate to losses on the sale of Serbian government bonds in RSD.

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12. NET PROFIT / (LOSS) FROM EXCHANGE DIFFERENCES AND EFFECTS OF CONTRACTED CURRENCY CLAUSE

	In thousands of RSD For the year ended December 31	
	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	17,989	13,173
Positive currency clause effects – retail customers	427,235	1,281,370
Foreign exchange gains	14,940,221	3,988,051
Total profit	**16,718,065**	**7,806,382**
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	(10,645,235)	(5,703,585)
Total loss	**(16,795,467)**	**(7,800,306)**
Net profit / (loss)	**(77,402)**	**6,076**

13. OTHER OPERATING INCOME

a) Other operating income relates to:

	In thousands of RSD For the year ended December 31	
	2017	**2016**
Other income from operations	192,195	173,685
Other income	759,057	400,856
Gains on the reversal of provisions for the litigations (Note 34)	29,089	1,020
Gains on the valuation of property and equipment	-	32,415
Total	**980,341**	**607,976**

13. OTHER OPERATING INCOME (continued)

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 19,898 thousand RSD.

During 2017, the Parent 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 the income of the Home Bank:

- On the basis of the received 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 (RSD) 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 on the basis of the payment of the 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 gain on investments

	In thousands of RSD For the year ended December 31	
	2017	**2016**
Gains on sales – participation in the capital of JUBMES banka	306	5,143
Total	**306**	**5,143**

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

Net impairment charges relate to:

	In thousands of RSD For the year ended 31 December 2017	2016
Impairment allowance of loans and receivables	(12,703,727)	(24,325,456)
Provisions for off-balance sheet items	(338,553)	(701,750)
Impairment allowance of direct write-off placements of loans and receivables	(5,951)	(15,498)
Reversal of impairment allowance of loans and receivables	11,948,417	11,121,231
Reversal of provisions for off-balance sheet items	397,562	784,280
Income from collection of receivables previously written-off	738,594	57,696
Total	**36,342**	**(13,079,497)**

As part of the position, the indirect write-offs of placements of balance sheet positions were also recorded by the Group and the impairment of material values acquired through collection of receivables in the amount of RSD 314,948 thousand based on the assessment of the value of the property and equipment by the authorized appraisers, in accordance with the internal acts of the Group.

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 write-off from the balance sheet to the off-balance sheet was previously carried out. The most significant collection amounts are: Koncern 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 made, which would have the effect of eliminating the allowance for impairment in accordance with the requirements of IAS 10.

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

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investment securities (Notes 21 and 22)	Other assets (Note 29)	Off-balance sheet liabilities (Note 34)	Total
Balance as of January 1, 2017	311,994	32,090,602	165,879	3,576,411	493,492	36,638,378
New impairment allowance	3,036	12,021,802	29,813	649,076	338,553	13,042,280
Decrease in impairment allowance	(65,660)	(11,713,345)	(27,211)	(142,201)	(397,562)	(12,345,979)
Foreign exchange effects	(46,791)	(831,505)	(3,523)	(45,139)	(2,215)	(929,173)
Write-offs	-	(13,599,616)	(164,955)	(26,646)	-	(13,791,217)
Other movements	-	805,676*	-	(870,584)	(260,686)	(325,594)
Balance as of December 31, 2017	**202,579**	**18,773,614**	**3**	**3,140,917**	**171,582**	**22,288,695**

* effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2017, the Group made an increase in the net cost of impairment and provisioning in the total amount of RSD 696,301 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 13,791,217 thousand refers to the decrease on the basis of permanent write-off by transferring to off-balance sheet with the Parent bank, KB Budva and KB Banja Luka, based on the application of uniform accounting policies.

15. STAFF COSTS

The costs of salaries, wages and other personal expenses consist of:

	In thousands of RSD For the year ended December 31	
	2017	**2016**
Net salaries	3,067,911	3,010,170
Net benefits	480,967	488,056
Payroll taxes	453,421	442,875
Payroll contributions	1,003,739	963,233
Considerations paid to seasonal and temporary staff	15,291	17,670
Provisions for retirement benefits – net (Note 34)	32,606	50,724
Other staff costs	76,877	86,741
Total	**5,130,812**	**5,059,469**

16. DEPRECIATION/AMORTIZATION CHARGE

	In thousands of RSD For the year ended December 31	
	2017	**2016**
Amortization charge – intangible assets (Note 25.2)	162,273	224,443
Depreciation charge – property and equipment (Note 26.2)	418,137	449,499
Depreciation charge – investment property (Note 27.1)	45,270	55,784
Total	**625,680**	**729,726**

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17. OTHER EXPENSES

Other expenses relate to:

	In thousands of RSD For the year ended December 31	
	2017	**2016**
Cost of materials	401,199	386,972
Cost of production services	2,282,749	2,330,253
Non-material costs (without taxes and contributions)	2,746,978	2,956,348
Taxes payable	146,519	158,401
Contributions payable	792,567	767,084
Other operating cost	25,613	25,695
Other expenses	267,464	314,815
Losses on the valuation of property and equipment, investment property and intangible assets	107,576	676,944
Provisions for litigations (Note 34)	191,029	488,424
Total	**6,961,694**	**8,104,936**

a) Other expenses

Within the position of other expenditures of the Parent bank in the amount of RSD 262,117 thousand among others were 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 the life insurance policies of clients, valued for the Bank in the amount of RSD 111,554 thousand, and whose payment was assumed by the Bank for its burden. 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 write-off and write-off of fixed assets and intangible investments in the amount of RSD 5,409 thousand.

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 173,187 thousand (Note 34) refer to:

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

18. INCOME TAX

The parent bank does not have the possibility to perform tax consolidation on the basis of valid regulations in the Republic of Serbia. The final amounts of tax liabilities for the Group members are determined by applying the tax rate to the tax base established by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

Tax rates for 2017 are:

Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD For the year ended December 31 2017	2016
Current income tax	(9,381)	(21,318)
Deferred income tax benefits	1,366,704	315,718
Deferred income tax expense	(405,710)	(1,844)
Total	**951,613**	**292,556**

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

18.1. The Parent Bank

18.1.1. The components of the corporate income tax as at December 31 are as follows:

	In thousands of RSD For the year ended December 31 2017	2016
Deferred income tax benefits	1,335,828	314,453
Deferred income tax expense	(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, i.e. in the amount of RSD 1,235,813 thousand. Of this amount for covering the taxable profit for 2017, RSD 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.1. The Parent Bank (continued)

18.1.2. The adjustment of the effective tax rate is shown in the following table:

				In thousands of RSD
	2017	2017	2016	2016
Profit / (Loss) for the year before taxes		7,187,250		(6,175,885)
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	-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	-12.94%	(930,118)	-3.75%	(314,453)
Tax effects stated within the income statement		**930,118**		**314,453**

18.1.3. Deferred tax liabilities at 31 December are shown as follows:

	In thousands of RSD For the year that ends December 31 2017	2016
Balance at 1 January	(23,592)	(329,258)
Creation and elimination of temporary differences	880,688	305,666
Balance at 31 December	**857,096**	**(23,592)**

18.1.4. Current tax assets

	In thousands of RSD December 31, 2017	December 31, 2016
Current tax assets (paid monthly advance tax returns for 2017, prescribed by the Corporate Income Tax Law)	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.5. Deferred tax assets and liabilities

18.1.5.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.5. Deferred tax assets and liabilities (continued)

18.1.5.2 Overview of tax credits on which no deferred tax assets are formed:

In thousands of RSD

Type of tax credit	Year	Amount as at 31.12.2015	Amount as at 31.12.2016	Expiration date of use
Tax losses carried forward	2014	-	388,385	2019
	2015	2,533,717	10,384,084	2020
	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 based on 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 (bond note 18.1.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.5. Deferred tax assets and liabilities (continued)

18.1.5.3. Movements under temporary differences in 2017 and 2016 are presented as follows:

In thousands of RSD

2017	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Transfered tax losses	-	867,146	-	-	867,146
Securities	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Acturial gains	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

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
Employee benefits under Article 9 paragraph 2. CIT Law	-	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)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.1. The Parent bank (continued)

18.1.6. Tax effects related to the Other total result

In thousands of RSD

	2017			2016		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value 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 actuarial 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**

18.2. Komercijalna banka ad, Budva

18.2.1. The components of the corporate income tax as at December 31 are as follows:

In thousands of RSD
For the year that ends December 31st

	2017	2016
Tax expense of the period	(47)	(7,543)
Profit from deferred taxes	29,978	1,265
Loss on deferred tax	-	(1,844)
	29,931	**(8,122)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.2. Komercijalna banka ad, Budva (continued)

18.2.2. The adjustment of the effective tax rate is shown in the following table:

	2017	2017	2016	2016
Profit / (Loss) before tax		**59,797**		**(1,111,428)**
Tax calculated at the local rate of 9%	9.00%	5,382	9.00%	(100,028)
Taxable income - related parties and capital gains	0.08%	47	-0.68%	7,543
Tax deductible expenses	1.79%	1,067	-0.11%	1,216
Tax credits	-10.79%	(6,449)	-7.53%	83,726
Effective income tax	0.08%	47	-0.68%	(7,543)
Tax effects of items reported in the income statement		**(47)**		**(7,543)**

18.3. Komercijalna banka ad, Banja Luka

18.3.1. The components of the corporate income tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2017.	2016.
Tax expense of the period	(9,299)	(12,921)
Profit from deferred taxes	898	-
	(8,401)	**(12,921)**

18.3.2. The adjustment of the effective tax rate is shown in the following table:

	2017	2017	2016	2016
(Loss) / Profit before tax		**89,714**		**38,821**
Tax calculated at the local income tax rate of 10%	10.00%	8,971	10.00%	3,882
Tax deductible expenses	5.43%	4,869	46.73%	18,140
The effects of the recognized deferred tax income	-	-	-17.35%	(6,735)
Income tax – free	-5.06%	(4,541)	-6.09%	(2,365)
Effective tax	10.37%	9,299	33.28%	12,921
Tax effects of items reported in the income statement		**(9,299)**		**12,921**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.3. Komercijalna banka ad, Banja Luka

18.3.3. Deferred tax liabilities at 31 December are shown as follows:

	In thousands of RSD For the year that ends Decembar 31st	
	2017	2016
Balance at 1 January	4,414	2,557
Creation and elimination of temporary differences	(2,767)	1,857
Balance at 31 December	**1,647**	**4,414**

18.4. KomBank INVEST Investment fund management company ad, Belgrade

18.4.1. The components of the corporate income tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st	
	2017	2016
Tax expense of the period	(35)	(854)
	(35)	**(854)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

18. INCOME TAX (continued)

18.4. KomBank INVEST Investment fund management company ad, Belgrade (continued)

18.4.2. The adjustment of the effective tax rate is shown in the following table:

	In thousands of RSD For the year that ends 31 December 2017	2016
Profit before tax	940	28,045
Income tax at the statutory tax rate of 15%	141	4,207
The tax effects of net capital gains	35	854
Tax effects of differences of depreciation for tax purposes and accounting depreciation	40	41
Tax effects of losses for tax purposes	-	(411)
Correction of tax effects (effect of used and new)	(216)	(4,691)
Other	35	854
Tax effects of items reported in the income statement	**(35)**	**(854)**
Effective tax rate	**3.72%**	**3.05%**

19. CASH AND ASSETS IN THE CENTRAL BANK

Cash and balances with the central bank include:

	In thousands of RSD December 31 2017	December 31 2016
In RSD		
Cash on hand	3,045,919	3,327,335
Gyro account	15,047,427	20,295,030
Interest on obligatory RSD reserves	99	100
Other RSD cash funds	**18,093,445**	**23,622,465**
In foreign currencies		
Cash on hand	4,622,429	3,883,053
Foreign currency obligatory reserves	32,318,639	33,125,275
Other cash funds	1,042,235	1,288,309
	37,983,303	**38,296,637**
Total	**56,076,748**	**61,919,102**

19. CASH AND ASSETS IN THE CENTRAL BANK (continued)

Adjustment to cash for the purpose of preparing cash flow statement

Foreign currency accounts held with foreign banks (Note 23.1)	5,199,540	10,867,916
Foreign currency obligatory reserves	(32,318,639)	(33,125,275)
Deposited surplus liquid assets	**(27,119,099)**	**(22,257,359)**
Cash and cash equivalents reported in statement of cash flows	**28,957,649**	**39,661,743**

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

The Parent Bank

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 registers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

19. CASH AND ASSETS IN THE CENTRAL BANK (continued)

The Parent Bank (continued)

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

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, but 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 equal to the foreign exchange reserve requirement.

Decision on amendment of the Decision on obligatory reserve dated 11.12.2015. (Official Gazette 102/2015), the rates of allocation of the foreign currency reserve requirement are as follows:

- FX deposits with deposits up to 730 days are 20%
- On foreign currency deposits deposited over 730 days the rate is 13%
- For RSD deposits indexed by currency clause, the rate is 100% irrespective of maturity.

By the Decision on the Reserve Requirement of the National Bank of Serbia, the Bank allocated a portion of the foreign currency reserve requirement in RSD in its giro account. The Bank does not make any interest on the obligatory reserve in foreign currency.

Other cash in foreign currency in the amount of RSD 184 thousand (2016: RSD 23 thousand) refers to the account with the Central Securities Depository for trading in securities.

Komercijalna banka ad, Budva

The mandatory reserve of the Bank as of December 31, 2017 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 9.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 8.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 9.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 15% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2017.

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19. CASH AND ASSETS IN THE CENTRAL BANK (continued)

Komercijalna banka ad, Banja Luka

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

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From 1 July 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to 50% of the rate applied by the European Central Bank to Deposit Facility Rate - (S.glasnik Republike Srpske 33/2016).
If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

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

Trading assets are composed of:

	In thousands of RSD	
	December 31 2017	**December 31 2016**
Securities held for trading (in RSD)	2,184,287	247,862
Securities held for trading (in foreign currency)	3,240,355	-
Total (Note 4.1.6)	**5,424,642**	**247,862**

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

The structure of financial assets held for trading is shown in the table below:

In thousands of RSD

	December 31 2017	December 31 2016
Republic of Serbia bonds	1,628,010	-
Investment units of OIF KomBank Devizni fond	4,778	4,942
Investment units of OIF Novčani fond	551,499	242,920
Bonds of the Republic of Serbia in foreign currency	3,240,355	-
Total	**5,424,642**	**247,862**

Investment units as at 31 December 2017 in the total amount of RSD 556,277 thousand refer to investment units KomBank Novčani fond Beograd and OIF Foreign Exchange Fund.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Available-for-sale financial assets consist of:

	In thousands of RSD	
	December 31 2017	December 31 2016
Securities available for sale (in RSD)	33,470,304	43,826,167
Securities available for sale (in foreign currency)	82,627,637	96,063,753
Total (Note 4.1.6)	**116,097,941**	**139,889,920**
Impairment	(3)	(81,710)
Total	**116,097,938**	**139,808,210**

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).

Valuation of value in its entirety relates to bonds of local governments.

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21. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Securities available for sale (in foreign currency) as at 31 December 2017 relate to long-term government bonds in the amount of RSD 77,178,120 thousand (2016: RSD 86,592,932 thousand), government bonds in the amount of 1,888,350 RSD 1,000 thousand (2016: RSD 2,038,226 thousand), government bonds of RSD 1,778,838 thousand (2016: RSD 827,069 thousand) and bonds of foreign banks Raiffeisen Bank International in the amount of RSD 1,782,330 thousand (2016: RSD 1,818,930 thousand).

Validation changes are shown as follows:

Impairment allowance of securities available for sale	**In thousands of RSD**	
	December 31 2017	**December 31 2016**
Individual impairment allowance		
Balance at January 1st	81,710	370
Current year impairment allowance:		
Increase (Note 14)	29,813	81,230
Exchange rate effects (Note 14)	(3,523)	115
Items not included over the year (Note 14)	(27,211)	(5)
Permanent write-off	(80,786)	-
Total individual impairment allowance	**3**	**81,710**

22. FINANCIAL ASSETS WHICH HOLD TO MATURITY

Financial assets held to maturity consist of:	In thousands of RSD	
	December 31 2017	**December 31 2016**
Securities held to maturity (in RSD)	-	84,169
Securities held to maturity (in foreign currency)	-	368,999
Impairment allowance	-	(84,169)
Total (Note 4.1.6)	**-**	**368,999**

Impairment allowance of securities held to maturity

	In thousands of RSD	
	December 31 2017	**December 31 2016**
Balance at 1 January	84,169	97,669
Current year impairment allowance:		
Increase (Note 14)	-	936
Released during the year (Note 14)	-	(936)
Permanent write-off	(84,169)	(13,500)
Total Corrections	**-**	**84,169**

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23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

23.1 Placements to banks include

	In thousands of 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)	5,199,539	10,867,916
Overnight loans	2,144,357	585,677
Other loans and receivables due from foreign banks	972,056	772,678
Foreign currency deposits placed with other banks	5,929,799	6,204,867
Prepayments	819	710
Other receivables	13,004	9,184
Secured foreign currency warranties	889,202	1,050,864
Impairment	(202,579)	(311,994)
	14,946,197	**19,179,902**
Total	**30,233,555**	**43,216,681**

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 from 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 up to one year with an annual interest rate ranging from 0.10% to 0.25% for the EUR currency, from 0.30% to 1.25% for USD and from 0.13% to 0.40% for CHF.

Long-term time deposits with banks in foreign currency were deposited at the annual interest rate in the range of 0.25% to 0.25%.

Interest rates on placements of short-term loans in foreign currency ranged from 5.90% to 6.80%, while interest rates on planned long-term loans in foreign currency ranged from 4.05% to 6.90%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

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

23.2 Changes in the value adjustment account by placements to banks are presented in the the following table:

Impairment	**2017**	**2016**
Balance at 1 January	311,994	399,898
Impairment in the current year:		
Increase (Note 14)	3,036	4,051
Effects of exchange rate change (Note 14)	(46,791)	15,585
Permanent write-off	-	(105,463)
Released during the year (Note 14)	(65,660)	(2,077)
Balance at 31 December	**202,579**	**311,994**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

In thousands of RSD

	2017			2016		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	547,983	(15,523)	532,460	599,731	(77,830)	521,901
Working capital loans	41,111,061	(6,948,860)	34,162,201	47,892,654	(8,143,530)	39,749,124
Export loans	59,381	-	59,381	2,171,791	(2,039,330)	132,461
Investment loans	31,305,119	(2,591,763)	28,713,356	30,263,822	(4,018,372)	26,245,450
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	507,877	(325,392)	182,485
Other loans and receivables	43,331,933	(7,271,480)	36,060,453	43,592,100	(11,901,963)	31,690,137
Prepayments	146,649	(24,290)	122,359	225,863	(127,098)	98,765
Accruals	(174,533)	-	(174,533)	(226,002)	-	(226,002)
	118,853,409	**(17,132,701)**	**101,720,708**	**127,632,640**	**(28,732,318)**	**98,900,322**
Retail customers						
Transaction account overdrafts	3,852,990	(425,362)	3,427,628	4,035,694	(709,744)	3,325,950
Housing loans	41,444,608	(660,884)	40,783,724	42,521,786	(1,113,184)	41,408,602
Cash loans	26,591,048	(429,866)	26,161,182	21,559,287	(1,030,537)	20,528,750
Consumer loans	285,226	(6,927)	278,299	408,830	(47,905)	360,925
Other loans and receivables	2,369,413	(114,850)	2,254,563	2,713,060	(453,876)	2,259,184
Prepayments	229,137	(3,024)	226,113	216,355	(3,038)	213,317
Accruals	(610,078)	-	(610,078)	(596,042)	-	(596,042)
	74,162,344	**(1,640,913)**	**72,521,431**	**70,858,970**	**(3,358,284)**	**67,500,686**
Balance as at December 31	**193,015,753**	**(18,773,614)**	**174,242,139**	**198,491,610**	**(32,090,602)**	**166,401,008**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

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

	In thousands of RSD December 31 2017	December 31 2016
Individual impairment allowance		
Balance as at January 1	**29,920,987**	**35,918,535**
Current year impairment allowance:		
Increase (Note 14)	7,337,739	11,692,716
Reclassified from group to individual impairment allowance	197,466	(2,731,965)
Effects of the changes in foreign exchange rates (Note 14)	(419,849)	120,287
Reversal (Note 14)	(6,605,172)	(3,360,826)
Permanent write-off	(13,010,356)	(11,816,533)
Previous years interest income	2,014	-
Other (Note 14)	23,901	98,773
Total individual impairment allowance	**17,446,730**	**29,920,987**
Group impairment allowance		
Balance as at January 1	**2,169,615**	**2,214,935**
Current year impairment allowance:		
Increase (Note 14)	4,684,063	10,923,432
Reclassified from group to individual impairment allowance	(197,466)	2,731,965
Effects of the changes in foreign exchange rates (Note 14)	(411,656)	362,704
Reversal (Note 14)	(5,108,173)	(7,570,216)
Written off (Note 14)	(589,260)	(7,095,673)
Other (Note 14)	779,761	602,468
Total group impairment allowance	**1,326,884**	**2,169,615**
Balance as at December 31	**18,773,614**	**32,090,602**

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 with nominal interest rates ranging from 3.5% to 18.5% 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 0.2% to 13.00% annually.

Long-term loans to households in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 2.0% to 12.95% 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 15.0% annually. In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.3% to 13.2% per annum.

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 of up to forty-four months with an interest rate of EUR from 1.25% to 11.99% annually.

Risks and uncertainties

Management of the Group members made provision for potential credit losses on the basis of all known and foreseeable risks at the date of preparation of the financial statements. The classification of claims from the loan portfolio was based on 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 members of the Group, receivables are mostly provided to mortgages on immovable property of the debtor, as well as pledge on movable property. In the event that these activities undertaken by the management of the Group members 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

25. INTANGIBLE INVESTMENTS

25.1 Intangible assets consist of

	In thousands of RSD December 31 2017	December 31 2016
Intangible assets	367,875	391,983
Intangible assets in progress	130,512	2,563
Total	**498,387**	**394,546**

25.2 Changes in intangible assets during 2017 and 2016 are shown in the following table

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2016	1,868,107	11,307	1,879,414
Additions	5,146	361,425	366,571
Transfers	370,234	(370,234)	-
FX Adjustments	3,790	65	3,855
Balance as at December 31, 2016	**2,247,277**	**2,563**	**2,249,840**
Balance at January 1, 2017	2,247,277	2,563	2,249,840
Additions	4,755	262,196	266,951
Transfers	134,186	(134,186)	-
FX Adjustments	(11,090)	(61)	(11,151)
Balance as at December 31, 2017	**2,375,128**	**130,512**	**2,505,640**
Depreciation			
Balance at January 1, 2016	1,627,466	-	1,627,466
Depreciation (Note 16)	224,443	-	224,443
FX Adjustments	3,385	-	3,385
Balance as at December 31, 2016	**1,855,294**	**-**	**1,855,294**
Balance at January 1, 2017	1,855,294	-	1,855,294
Depreciation (Note 16)	162,273	-	162,273
FX Adjustments	(10,314)	-	(10,314)
Balance as at December 31, 2017	**2,007,253**	**-**	**2,007,253**
Net Book Value			
Balance as at December 31, 2016	**391,983**	**2,563**	**394,546**
Balance as at December 31, 2017	**367,875**	**130,512**	**498,387**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26. PROPERTY, PLANT AND EQUIPMENT

26.1 Property, plant and equipment consist of:

	In thousands of RSD	
	December 31 2017	December 31 2016
Property	5,240,836	5,548,211
Equipment	634,924	652,080
Investments in progress	141,440	50,896
Total	**6,017,200**	**6,251,187**

26.2 Movements on property, plant and equipment during 2017 and 2016 were as follows:

			In thousands of RSD	
Cost	**Property**	**Equipment**	**Investment in Progress**	**Total**
Balance at January 1, 2016	7,357,922	3,798,783	48,660	11,205,365
Additions	13,925	7,028	381,725	402,678
Transfers from assets to assets in progress	67,693	133,855	(201,548)	-
Transfers to investment in progress (Note 27.1)	-	-	(79,470)	(79,470)
Transfers from investment property	339,823	-	-	339,823
Transfers on assets held for sale	(77,669)	-	(98,550)	(176,219)
Transfers from assets acquired through collection of receivables	103,579	-	-	103,579
Disposals and retirements	(11,037)	(42,065)	-	(53,102)
Sales	-	(2,446)	-	(2,446)
Appraisal increase	490,255	-	-	490,255
Appraisal decrease	(661,708)	-	-	(661,708)
FX adjustments	4,073	8,060	79	12,212
Balance at December 31, 2016	**7,626,856**	**3,903,215**	**50,896**	**11,580,967**
Balance at January 1, 2017	7,626,856	3,903,215	50,896	11,580,967
Additions	-	3,962	359,456	363,418
Transfers from assets in progress	60,058	213	(268,829)	4,229
Transfers on investment in progress (Note 27.1)	(14,773)	-	-	(14,773)
Transfers to assets for sale	(176,051)	-	-	(176,051)
Transfers from equipment	787	(787)	-	-
Transfers from assets acquired through collection of receivables	-	4,013	-	4,013
Disposals and retirements	(67,183)	(115,536)	-	(182,719)
Sale	-	(15,907)	-	(15,907)
FX adjustments	(23,032)	(21,708)	(83)	(44,823)
Balance at December 31, 2017	**7,406,662**	**3,970,252**	**141,440**	**11,518,354**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.2 Movements on property, plant and equipment during 2017 and 2016 were as follows (continued)

In thousands of RSD

	Property	Equipment	Investment in Progress	Total
Depreciation				
Balance at January 1, 2016	1,789,178	3,024,180	-	4,813,358
Depreciation (Note 16)	186,169	263,330	-	449,499
Transfers on investment in progress (Note 27.1)	68,698	-	-	68,698
Transfers on assets held for sale	(48,397)	-	-	(48,397)
Transfers from assets acquired through collection of receivables	65,161	-		65,161
Disposals and retirements	(8,959)	(41,176)	-	(50,135)
Sale	-	(2,256)	-	(2,256)
Appraisal increase	162,200	-	-	162,200
Appraisal decrease	(136,847)	-	-	(136,847)
FX adjustments	1,442	7,057	-	8,499
Balance as at December 31 2016	**2,078,645**	**3,251,135**	**-**	**5,329,780**
Balance at January 1, 2017	2,078,645	3,251,135	-	5,329,780
Depreciation (Note 16)	186,308	231,829	-	418,137
Transfers from investment properties (Note 27.1)	(3,265)	-	-	(3,265)
Transfers on assets held for sale	(25,486)	-	-	(25,486)
Transfers from assets acquired through collection of receivables	1,833	-		1,833
Disposals and retirements	(62,116)	(112,639)	-	(174,755)
Sale	-	(15,322)	-	(15,322)
FX adjustments	(10,093)	(19,675)	-	(29,768)
Balance as at December 31, 2017	**2,165,826**	**3,335,328**	**-**	**5,501,154**
Net book value				
Balance as at December 31, 2016	**5,548,211**	**652,080**	**50,896**	**6,251,187**
Balance as at December 31, 2017	**5,240,836**	**634,924**	**141,440**	**6,017,200**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

26. PROPERTY, PLANT AND EQUIPMENT (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan. Due to incomplete cadastral books, as of December 31, 2017, the Parent Bank does not have evidence of ownership for 34 construction facilities with the current value of RSD 515,278 thousand (the number of facilities includes assets acquired through collecting receivables). The parent bank's management takes all the necessary measures to obtain ownership papers.

Based on the Annual list of the Group members, the amount of RSD 1.006 thousand of the permanently useless fixed assets of the present value is disposed of and disposed of.

During 2017, the Parent Bank sold equipment with total present value in the amount of RSD 24 thousand, while Komercijalna banka ad. Banja Luka equipment with total present value in the amount of RSD 561 thousand.

27. INVESTMENT PROPERTY

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

	In thousands of RSD Total
Cost	
Balance at January 1, 2016	3,188,793
Transfer from investments in progress (Note 26.2)	79,470
Transfers to PP&E	(339,823)
Transfers from assets held for sale	145,516
Transfers from assets acquired through collection of receivables	361,681
Sale	(60,757)
Appraisal – decrease (Note 17)	(269,621)
FX adjustments	2,487
Balance at December 31, 2016	**3,107,746**
Balance at January 1, 2016	3,107,746
Transfer from PP&E	14,773
Transfers from assets held for sale	23,461
Transfers from assets acquired through collection of receivables - corection	(5,272)
Sale	(117,034)
Appraisal – decrease (Note 17)	(79,477)
FX adjustments	(26,675)
Balance at December 31, 2017	**2,917,522**
Depreciation	
Balance at Janaury 1, 2016	288,872
Depreciation (Note 16)	55,784
Transfer to PP&E	(68,698)
Transfers from assets acquired through collection of receivables	242,839
Sale	(1,628)
Appraisal – decrease (Note 17)	(17,603)
FX adjustments	129
Balance as at December 31, 2016	**499,695**
Balance at January 1, 2017	499,695
Depreciation (Note 16)	45,270
Transfer from PP&E	3,265
Transfers from assets acquired through collection of receivables	7,672
Sale	(4,438)
Appraisal – decrease (Note 17)	(3,520)
FX adjustments	(10,986)
Balance as at December 31, 2017	**536,958**
Net book value	
Balance as at December 31, 2016	**2,608,051**
Balance as at December 31, 2017	**2,380,564**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. INVESTMENT PROPERTY (continued)

Information on investment property per members of the Group is presented below:

27.2.1 The parent bank

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

In 2017, based on the assessment of the authorized external assessor, a decrease in the value of investment property in the amount of RSD 75,957 thousand was made against the impairment expenses (part of note 17).

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

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(23,507)	47,193	23,686
Niš, Vrtište new D - building	1,816	(4,251)	-	(4,251)
Niš, TPC Kalča	85	(806)	4,748	3,942
Beograd, Omladinskih brigade 19	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. February 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 locals	367	(2,010)	1,877	(133)
Kotor, Old Town, Palata beskuća, business area, number 1	207	(1,578)	5,553	3,975
Beograd, Luke Vojvodića 77a	80	432	654	222
		(79,100)	**106,967**	**27,867**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

27. INVESTMENT PROPERTY (continued)

27.2.2 Komercijalna banka ad, Banja Luka

As at 31 December 2017, the Bank has classified investment properties in the amount of RSD 279,700 thousand, which make the buildings lease.

On the basis of the concluded long-term lease agreement, in 2017, the Bank made a transfer to investment property from the position of fixed assets intended for sale (family residential building, office buildings and land located in Saračica, Banja Luka) in the amount of RSD 23,461 thousand.

Estimation of the value of investment property where the estimated value was higher than the net book value in 2017:

Property	Area in m²	Book value before the appraisal in 000 RSD	Appraisal value		Difference in 000 RSD
			In 000 EUR	In 000 RSD	
Business building: Ground floor-production warehouse; Ground floor - administrative part; Floor-administrative part; Attic-administrative part located in the Non-custom area District Brcko - Industrial and labor zone	1,024	41,940	362,713	42,971	1,031
Business building-production building: Non-custom area Distrikt Brcko	949	27,815	242,983	28,787	972
Business building-warehouse located in the Non-custom area District Brcko - Industrial and labor zone	873	12,423	107,604	12,748	326
Land located in the Non-custom area District Brcko - Industrial and labor zone	1,958	8,119	68,530	8,119	-
Land located in the Non-custom area District Brcko - Industrial and labor zone	2,763	9,820	82,890	9,820	-
Land located in the Non-custom area District Brcko - Industrial and labor zone	2,476	8,800	74,280	8,800	-
Land in Nova Topola	6,514	11,373	96,000	11,373	-
Business catering facility and land - Nova Topola	9,136	136,153	1,169,000	138,495	2,342
Family residential building, Saracica, Banja Luka	438	10,918	148,800	17,629	6,710
Business building - office building, Saračica, Banja Luka	104	2,414	32,900	3,898	1,484
Business building - workshop, Saracica, Banja Luka	136	2,209	30,100	3,566	1,357
Business building - workshop for stone processing, Saracica, Banja Luka	96	1,702	23,200	2,749	1,046
Land, Saracica, Banja Luka	6,750	6,014	81,000	9,596	3,583
TOTAL		**279,700**	**2,520,000**	**298,551**	**18,851**

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27. INVESTMENT PROPERTY (continued)

27.2.2 Komercijalna banka ad, Banja Luka (continued)

The Bank has not recognized the increase in the value of investment property on the basis of the performed assessment.

As at 31 December 2017, the net result on the basis of investment property amounts to RSD 4,971 thousand:

In thousands of RSD

Object Name	Area in m²	Total Cost	Realized rental income	Net result
Brcko, Bescarinska zona bb	7,197	(2,087)	4,668	2,581
Nova Topola, land	5,767	-	372	372
Štrbac Milovan and Miroslav		(278)	559	281
Actros motel-pizzeria Nova Topola	5,437	(2,401)	4,138	1,737
		(4,766)	**9,737**	**4,971**

27.2.3 Komercijalna banka ad, Budva

As at 31 December 2017, the Bank has listed investment property in the amount of RSD 112, 256 thousand, which make the buildings lease.

As at 31 December 2017, the net result on the basis of investment property amounts to RSD 2,954 thousand:

In thousands of RSD

Object Name	Area in m²	Total Cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	2,276	2,276
Apartment in Budva	50	-	364	364
Land and commercial space - Božaj	100	-	314	314
		-	**2,954**	**2,954**

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28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	In thousands of RSD December 31 2017.	December 31 2016.
Assets held for sale and discontinued operations	787,618	349,523
Total	**787,618**	**349,523**

a) Assets held for sale at the parent bank:

Object Name	Area in m^2	Booking value
Jasika, office space	75.87	559
Požarevac, Moše Pijade 2, commercial space	826.82	28,968
Požarevac, Moše Pijade 2, commercial space	880.86	23,969
Vrbas M. Tita 49, commercial space	145.56	3,130
Kotor, business premises 1 and 2	690.00	95,002
Jastrebac, resort building	687.00	20,443
Jastrebac, summer house	108.00	1,667
Jastrebac, house for aggregate	65.00	322
Belgrade, Palmira Toljatija 5	637.00	67,088
Total		**241,148**

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

During 2017, three business premises were sold in Belgrade, and on that basis, fixed assets intended for sale of the present value of RSD 81,836 thousand 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 parent bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m^2	Booking value in thousands of RSD
Business space Posusje	1,289.00	22,480
Commercial building and land, Kočićevo, Gradiska	5,333.50	16,646
Family apartment building, Prijedor	505.65	5,686
Business buildings and land, Mrkonjić grad	2,619.00	4,349
Business building and land, Hadzici	775.00	19,183
Business buildings and land, Prijedor	7,043.00	60,766
Commercial building and land, Rovine, Gradiška	961.00	5,166
Real estate-apartment, Pale	71.00	2,989
Business premises - Brčko District	29.00	1,731
Business premises - Brčko District	52.00	4,326
Production and Commercial Complex Brčko Distrikt	67,272.00	59,062
Equipment - machines		4,974
Goods-farming, Bijeljina		1,665
Motor vehicle Renault Master		1,221
Telescopic handler -SGENIE GTH3007		985
Commercial goods - warehouse Kondic Komerc Kozarska Dubica		20,092
Spare parts and supplies - Kozarska Dubica		4,483
		235,794

During the year 2017 there were sales of properties held for sale.

During 2017, various commodities were sold (agricultural goods, lacrosse equipment and Alfa Romeo passenger car) and on that basis, fixed assets were sold for the sale of the present value of RSD 1,601 thousand. The total sale price of these facilities amounts to RSD 1,241 thousand. A sales loss of RSD 360 thousand was realized.

During 2017, on the basis of the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale in the amount of RSD 5,961 thousand was made.

In compliance with the internal acts of the Bank, a decrease in the value of fixed assets intended for sale in the amount of RSD 106 thousand has been made.

In 2017, additional impairment was also made on the basis of the Decision issued by the Banking Agency of the Republic of Srpska for the realization of the established findings in the Report on the Detailed Review of the Bank's assets as of March 31, 2017. On this basis, the decrease in the value of fixed assets intended for sale amounts to RSD 14,801 thousand.

Total impairment of fixed assets intended for sale during 2017 is RSD 20,868 thousand. The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

c) Assets held for sale at Komercijalna banka ad, Budva:

Object Name	Area in m^2	Booking value in thousands of RSD
House in Podgorica with self-service and land	710	10,822
6 business premises at the Stari Aerodrom in Podgorica	497	26,217
Pasture area on Ćemovsko polje in Podgorica	375	1,186
2 apartments and 2 garages in Perazic Dol in Budva	123	18,137
Land in Razevici	547	6,649
Land and auxiliary building in Podgorica	849	-
Land and production hall for wood processing in Andrijevica (3 auxiliary buildings and buildings in the energy sector)	14,233	8,850
Land and houses in Danilovgrad	1,744	4,846
Land and family residential building in Danilovgrad	16,959	18,331
Unurbanized land in Kotor	31,534	39,298
Forest in Budva	709	14,952
Forest and meadow in Vranovići	3,131	2,758
Land in Kotor	3,362	5,497
Land and fish factory (buildings) in Rijeka Crnojevića (Cetinje)	50,455	94,023
Apartment in Niksic	65	2,434
Urbanized plot in Herceg Novi	300	1,386
Urbanized plot in Podgorica	1,684	11,753
Urbanized plot in Risan	425	4,111
Forests, fields and pastures in Bar	12,501	10,110
2 Business premises in Petrovac	173	23,416
Business premises Hoti - Podgorica	45	5,900
TOTAL		**310,676**

During the year 2017 there were sales of properties held for sale.

In 2017, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 55,856 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

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29. OTHER ASSETS

Other assets consist of:

	In thousands of RSD December 31 2017	December 31 2016
In RSD		
Fee receivables per other assets	102,745	94,293
Inventories	158,202	144,858
Assets acquired in lieu of debt collection	3,412,873	4,923,560
Prepaid expenses	120,459	100,430
Equity investments	1,572,140	1,380,921
Other RSD receivables	3,003,211	2,940,037
	8,369,630	**9,584,099**
Impairment allowance of:		
Fee receivables per other assets	(44,251)	(44,608)
Assets acquired in lieu of debt collection	(1,507,288)	(2,003,398)
Equity investments	(504,732)	(503,761)
Other RSD receivables	(944,035)	(875,893)
	(3,000,306)	**(3,427,660)**
In foreign currencies		
Fee receivables per other assets	2,104	77
Other receivables from operations	813,355	466,583
Receivables in settlement	1,379,082	872,143
Other foreign currency receivables	157,975	34,599
	2,352,516	**1,373,402**
Impairment allowance of		
Other receivables from operations	(163,542)	(193,464)
Receivables in settlement	(77,922)	(81,221)
	(241,464)	**(274,685)**
Total	**7,480,376**	**7,255,156**

On the basis of the performed annual inventory, the parent bank has made a write-off of the material expenses in the total amount of RSD 22 thousand.

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29. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance	**In thousands of RSD** December 31 2017	December 31 2016
Balance at 1 January	1,235,731	718,902
Impairment in the current year:		
Increase (Note 14)	197,905	878,707
Effects of change in exchange rate (Note 14)	(35,144)	13,473
Release during the year (Note 14)	(20,151)	(5,599)
Permanent write-off	(16,865)	(62,482)
Other	(469,439)	(307,270)
Total individual correction	**892,037**	**1,235,731**

Group impairment

	In thousands of RSD December 31 2017	December 31 2016
Balance at 1 January	2,340,680	1,920,152
Impairment in the current year:		
Increase (Note 14)	451,171	744,384
Effects of change in exchange rate (Note 14)	1,335	2,875
Release during the year (Note 14)	(122,050)	(181,572)
Permanent write-off	(9,781)	(52,356)
Other	(401,146)	(92,803)
Total group value adjustment	**2,248,880**	**2,340,680**
Balance at December 31 (without small inventory)	**3,140,917**	**3,576,411**
Correction of inventory value (not subject to credit risk)	100,851	125,934
Balance at December 31 (with small inventory)	**3,241,770**	**3,702,345**

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29. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

	2017	2016
Participation in the capital of banks and financial organizations	80,270	82,536
Participation in the capital of enterprises and other legal entities	464,902	468,277
Participation in the capital of foreign persons abroad	1,026,968	830,108
	1,572,140	**1,380,921**
Value adjustments based on:		
Participation in the capital of banks and financial organizations	(80,270)	(81,863)
Equity participation of enterprises and other legal entities	(424,462)	(421,898)
	(504,732)	**(503,761)**

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

The company's equity shares mostly relate to: October 14th, Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand, the Company Dunav osiguranje a.d.o. Belgrade in the amount of RSD 60,276 thousand and Politika a.d. Belgrade RSD 31,073 thousand.

Participation in the capital of foreign entities abroad relates to the company VISA INC in the amount of RSD 845,688 thousand and MASTER Card International in the amount of RSD 180,925 thousand and Montenegro Stock Exchange Podgorica in the amount of RSD 355 thousand.

29. OTHER ASSETS (continued)

a) Equity investments (continued)

The impairment of the equity participation in the amount of RSD 504,732 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousand, Politika a.d., Belgrade in the amount of RSD 28,484 thousand and Dunav osiguranje ad, Beograd in the amount of RSD 28,828 thousand.

b) Other receivables and receivables in the calculation

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 947,270 thousand, operating receivables in the amount of RSD 286,986 thousand, receivables based on material values received by collection of receivables in the amount of RSD 3,412,873 thousand (value adjustments in the amount of RSD 1,507,288 thousand), claims arising from advances granted for working capital in the amount of RSD 26,557 thousand, claims on lease RSD 434,444 thousand, claims for default interest on the basis of stocks s assets in the amount of 204,787 thousand and receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%).

Within the position of Other receivables in foreign currency settlement of the total amount of RSD 1,379,082 thousand, the most significant amount of RSD 1,251,557 thousand refers to receivables based on spot transactions.

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29. OTHER ASSETS (continued)

c) Foreclosed assets

Foreclosed assets totaling RSD 3,412,873 thousand, less recorded impairment allowance of RSD 1,507,288 thousand, with the net carrying value of RSD 1,905,585 thousand relate to members of the group:

Parent Bank

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

Description	In RSD thousand Area in м^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, auxiliarry 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**	

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

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

In RSD thousand

Description	Area in 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**	

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29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

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

In RSD thousand

Description	Area in m^2	Value	Acquisition Date
Valjevo, village Radjevo, warehouse	394	439	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,45	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	58,4	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	31.1.2014
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

***III** Assets foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision (continued)*

In RSD thousand

Description	Area in m^2	Value	Acquisition Date
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, building 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, grassland category 2	230	49	22.12.2015.
Svilajnac, Kodublje, business building, production 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, fields, grassland, vineyard	29,550	228	31.03.2016.
Valjevo, Bobove, category 6 and 7 arable fields	20,599	439	19.05.2016.
Total II		**791,228**	

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

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

In RSD thousand

Description	**Value**	**Acquisition Date**
Kruševac, movables (machinery, furniture, equipment)	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**	

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

In RSD thousand

Description	**Value**	**Acquisition Date**
Movable property, agricultural machinery and tools	4,365	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. Total net carrying value of the property was RSD 399,651 thousand, and it was sold for RSD 29,234 thousand.

Furthermore, during 2017 the Bank sold two more properties. The total sales price of the aforesaid properties amounted to RSD 313 thousand.

The effect of the impairment of assets acquired through the collection of debts in 2017 is shown in the table:

In RSD 000

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

29. OTHER ASSETS (Continued)

c) Foreclossed assets (continued)

Parent Bank (continued)

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 longer than 12 months, even though the appraisal value is higher than book value
- For equipment RSD 3,448 thousand based on lower appraisal market value.

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.

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29. OTHER ASSETS (Continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

G1.1. Appraisal value of foreclosed properties

Property	Area in m2	Book value before the appraisal	Appraisal value In EUR thousands	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, cement 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, factory 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, building no. 1 PD 4	345	81,014	584	69,626	(11,388)
Kotor, business premises,building no. 1 PD6	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 warehouse	2,492	48,007	811	46,278	(1,729)
Kruševac, Koševi bb, production business object	12,836	47,174	484	45,475	(1,699)
Niš, Bulevar 12. Februar bb, ancillary building-warehouse	2,062	42,088	510	40,573	(1,515)
Sokobanja, Sinex, production plant, field, 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, business buildings, production 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 buildings and land	10,584.2	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, building no. 1 PD2	106	24,892	179	21,393	(3,499)
Novi Sad, Bulevar oslobođenja 88, business 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, business premises 22	226	28,152	143	17,044	(11,108)
Aleksandrovo, Merošina, administrative building with land	8,527	15,211	275	14,663	(548)
Niš, Sjenička 1, business 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 bb, residential building	825.74	11,158	176	10,756	(402)
Novi Sad, Tihomira Ostojića 4, business premises 7	134	9,013	48	5,736	(3,277)
Lebane, Branka Radičevića 17, residential-bussines 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, business premises (5 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, residential building	434.58	4,692	46	4,523	(169)
Divčibare, category 5 field	8,012	4,270	96	4,193	(77)
Mokra Gora, house and fields	58,400	4,289	57	4,134	(155)
Kopaonik, house with land	337	4,235	41	4,083	(152)
Budva, Brdo Spas, category 4 forest	974	4,022	34	3,950	(72)
Novi Pazar, Ejupa Kurtagića 13, a 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)**

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

G1.2. Appraisals of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in 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 movables object worth in total RSD 96 thousand Parent bank does not have ownership documents (objects recorded on off-balance). The Parent bank's management is taking all necessary measures in order to sell the acquired assets.

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Komercijalna banka ad, Budva

Tangible assets acquired through collection of receivables in previous period:

Description	Area in м²	Value in RSD thousand	Acquisition Date
Danilovgrad – land and buildings	13,395	40	09.10.2007.
Sutomore – hotel and land	1,590	88,584	31.01.2009.
Budva – grassland and three family buidings	1,105	16,269	17.02.2009.
Petrovac – residential building and business premises	80	11,522	17.12.2009.
Podgorica – factory and land	8,214	37,148	28.12.2009.
Podgorica – business premises and land	5,209	37,524	28.12.2009.
Cetinje – garage and land	439	1,455	25.05.2010.
Podgorica– house and yard	883	25,579	31.07.2010.
Zemljište, two ancillary buildings and house /kafana - Danilovgrad	1,892	4,185	31.10.2011.
Podgorica – hotel	551	41,087	31.12.2011.
Podgorica – land and house	484	6,303	31.12.2011.
Bar – land, house and two ancillary buildings	1,507	3,794	28.02.2013.
Nikšić – meadow and unclassified roads	977	1,035	28.02.2013.
Budva – Perezića Do – land, business premises,three garages, four apartments	5,056	78,681	25.01.2014.
Budva – Buljarice land and business premises	9,791	26,502	25.01.2014.
Kotor – land, two family residential buildings and ancillary buildings	367	2,070	12.08.2014.
Podgorica land and building under construction	412	4,878	22.12.2014.
Bar – forest	3,569	57,019	29.12.2014.
Bar – business premises	385	22,844	24.03.2015.
TOTAL KB Budva (present value)		**466,519**	

For 20 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not accrued entry into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2017, amount to 466,519 thousand (EUR 3,937 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

29. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 78,333 thousand.

Estimated value of property acquired through collection of receivables:

Name of the property	Area in m^2	Book value before revaluation In RSD thousand	Estimated value In EUR thousand	Estimated value In RSD thousand	Value difference in RSD thousand
Zemljište, business premises, 3 garages and 4 apartments - Perazića Do	5,315	84,175	664	78,681	(5,494)
Land and business premises - Buljarice – Budva	9,791	58,763	224	26,502	(32,261)
Yard and a house Podgorici	883	33,735	216	25,579	(8,156)
Land and hotel- Sutomoru	1,590	94,897	748	88,584	(6,313)
Apartment and business premises- Petrovac	80	12,183	97	11,522	(661)
Grassland and three family residential buildings - Budva	1,105	17,060	137	16,269	(791)
Land and factory - Podgorica	8,214	42,513	314	37,148	(5,365)
Land and two business premises - Podgorica	5,209	38,440	317	37,524	(916)
Land and ancillary buildings - Danilovgrad	13,395	3,578	-	40	(3,538)
Land and garage - Cetinje	439	1,499	12	1,455	(44)
Land,two ancillary buildings and house/pub – Danilovgrad	1,892	4,533	35	4,185	(348)
Hotel - Podgorica	551	49,892	347	41,087	(8,805)
Land and house - Podgorica	484	7,341	53	6,303	(1,038)
Meadow and unclassified roads – Niksic	977	1,244	9	1,035	(209)
Land, house and two i ancillary buildings – Bar	1,507	3,961	32	3,794	(167)
Land, two family residential buildings and ancillary buildings - Kotor	396	3,080	17	2,070	(1,010)
Land and building under construction - Podgorica	412	5,063	41	4,878	(185)
Forest - Bar	3,569	57,282	481	57,019	(263)
Business premises - Bar	385	23,597	193	22,844	(753)
TOTAL		**542,836**	**3,937**	**466,519**	**(76,317)**

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30. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE BALANCE OF SUCCESS FOR THE TRADE

	In RSD thousand December 31, 2017	December 31, 2016
Liabilities based on changes in fair value - SWAP	7,845	-
TOTAL	7,845	-

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

Liabilities to banks and financial organizations are consist of:

	In RSD thousand December 31, 2017	December 31, 2016
Demand deposits	2,440,548	2,403,693
Term deposits	1,494,226	2,304,355
Borrowings	2,203,592	5,140,505
Expenses deferred at the effective interest rate (deductible item)	(20,681)	(45,031)
Other	20,091	18,997
Balance at December 31	6,137,776	9,822,519

During 2017 foreign currency term deposits placed by banks were deposited at interest rate of 0.01% for CHF, and 0.00% - 5.00% 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.

	In RSD thousand 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

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

By credit lines, the Parent Bank has contracted with certain creditors certain financial indicators. The methodology for calculating agreed financial indicators, by credit lines, differs from the calculation method of indicators in accordance with the regulations of the National Bank of Serbia in the part of the calculation of capital and includes items for determining the open credit exposure.

Based on the contracts concluded with, in the table above the mentioned foreign creditors, the Parent Bank is obliged to fulfill certain financial indicators until the final repayment of the liabilities for received loans.

In 2017, the parent bank repaid the EBRD credit line in the amount 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.

During 2017, based on the credit lines of GGF, Matična banka made an early repayment of the principal in the total amount of EUR 3,209 thousand, thus reducing the amount of the obligation to zero.

Breakdown of long-term borrowings of Komercijalna Banka a.d. Banja Luka included within the line item Liabilities due to banks:

	In RSD thousand	
	December 31, 2017	**December 31, 2016**
EFSE fund	**71,083**	**148,167**
Balance as at December 31	**71,083**	**148,167**

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

Based on the agreement concluded with EFSE fund Komercijalna banka a.d. Banja Luka is obliged to meet certain financial ratios. On 31 December 2017, all agreed financial indicators were within acceptable limits.

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32. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

	In RSD thousand December 31, 2017	December 31, 2016
Corporate customers		
Demand deposits	62,522,169	83,299,184
Overnight and other deposits	10,673,102	12,169,858
Borrowings	6,560,037	9,384,129
Earmarked deposits	1,616,883	966,862
Deposits for loans approved	691,317	755,794
Interest payable, accrued interest liabilities and other financial liabilities	456,241	536,041
Retail customers		
Demand deposits	30,083,520	27,799,770
Savings deposits	31,717	33,055
Earmarked deposits	197,121,547	202,047,051
Deposits for loans approved	4,198,663	4,059,360
Interest payable, accrued interest liabilities and other financial liabilities	2,197,246	2,163,128
Other deposits	943,804	1,425,880
Corporate customers	481,502	495,847
Balance at December 31	**317,577,748**	**345,135,959**

Corporate customers deposit

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.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka’s interest rate ranges from 0.00% to 3.10% annually.Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Budva's interest rate ranges from 0.00% to 0.01% annually.

Non-resident deposits in foreign currency in Parent Bank are non-interest bearing deposits, except for specific business arrangements.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Budva is non-exhaustive.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.62%.

During 2017, short-term deposits of enterprises in dinars were deposited at an interest rate ranging from: reference interest rates minus 4.00 percentage points on deposits from three to fourteen days to the reference interest rate annually minus 1.00 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 2.20% annually with a minimum of RSD 300 thousand.

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

Corporate customers deposit (continued)

Shot-term corporate depositas denominated in foreign currencies are deposited with the interest rates between 0.0 % and 1.50%.

Long-term corporate deposits in RSD bear interent rate determined as NBS base rate minus 1.85 to 0.5 percentage points, and in foreign currencies from 0.50% ro 4.00% per annum.

Retail Customer Deposits

In the year 2017, Dinar's and senior savings deposits of the population were non-interest bearing. The foreign currency and senior savings deposits of the population are deposited at an interest rate from 0.0% to 0.01% annually for EUR or from -0.30% to 0.01% per annum for other currencies.

Short-term household deposits in dinars were deposited with interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 1.60% for EUR, and for other currencies ranging from -0.45% to 1.50% annually .

Long-term retail deposits in dinars were deposited with interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 2.0% for EUR and for other currencies ranging from -1.0% to 2.50% annually .

Within the framework of loan commitments, total liabilities are recognized in foreign loans to foreign legal entities that are defined as clients for the needs of the balance sheet.

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

	In RSD thousand	
	December 31, 2017	December 31, 2016
Long-term credit		
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 credit		
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 with German Development Bank (abbreviated: KfW), the Parent Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained.

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

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

	In RSD thousand December 31, 2017	December 31, 2016
European Investment Bank (EIB)	291,950	403,490
Government of Montenegro - Project 1000+	50,441	111,887
Development Fund of Montenegro	123,681	69,167
Balance at December 31	**466,072**	**584,544**

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

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

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

	In RSD thousand December 31, 2016	December 31, 2015
Investment-Development Bank	**814,487**	**764,751**
Balance at December 31	**814,487**	**764,751**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2037.

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33. SUBORDINATED LIABILITIES

	In RSD thousand December 31, 2017	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 Parent bank returned a subordinated loan as a whole - EUR 50,000 thousand).

34. PROVISIONS

Provisions relate to:

	In RSD thousand December 31, 2017	December 31, 2016
Provisions for off-balance sheet items (Note 14)	171,582	493,492
Provisions for litigations (Note 37.4)	876,374	1,042,094
Provisions for employee benefits in accordance with IAS 19	503,927	485,921
Balance at December 31	**1,551,883**	**2,021,507**

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34. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

	2017				2016			
	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off-Balance Sheet Items (Note 14)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance January 1	493,492	1,042,094	485,921	2,021,507	575,406	1,204,790	432,532	2,212,728
Increase	338,553	191,029	34,144	563,726	701,750	488,424	80,943	1,271,117
Provisions against actuarial gains within equity	-	-	(25,699)	(25,699)	-	-	2,347	2,347
Release	(260,686)	(323,540)	(14,568)	(598,794)	-	(650,605)	(515)	(651,120)
Reversal of provision	(397,562)	(29,089)	(1,538)	(428,189)	(784,280)	(1,020)	(30,219)	(815,519)
Foreign exchange differences	(2,215)	(4,120)	(2,013)	(8,348)	616	505	833	1,954
Other	-	-	27,680	27,680	-	-	-	-
Balance at December 31	**171,582**	**876,374**	**503,927**	**1,551,883**	**493,492**	**1,042,094**	**485,921**	**2,021,507**

34. PROVISIONS

a) Provisions for litigations of Parent Bank

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

The most significant items relate to provisions under the arrangement with Intereksport ad, Belgrade (in bankruptcy) - under the covered letters of credit in 1991 in the amount of 321,599 thousand RSD (the total RSD equivalent refers to the part of the dispute against Intereksport ad Belgrade - in bankruptcy, in 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 employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments.

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

	December 31, 2017	December 31, 2016
Parent Bank		
Discont 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.

34. PROVISIONS (continued)

Komercijalna Banka a.d., Budva

Discount rate	3.00%	4.00%
Salary growth rate within the Bank	5.00%	4.50%
Employee turnover	6.00%	6.00%

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

34. PROVISIONS (continued)

b) Provisions for employee benefits (continued)

Komercijalna Banka a.d., Banja Luka

Discount rate	4.00%	5.00%
Salary growth rate within the Bank	1.00%	1.00%
Employee turnover	4.00%	3.00%

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

KomBank INVEST a.d., Beograd

Discount rate	4.50%	5.00%
Salary growth rate within the Bank	8.00%	7.00%
Employee turnover	5.00%	5.00%

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

35. OTHER LIABILITIES

Other liabilities include:

	In RSD thousand	
	December 31, 2017	**December 31, 2016**
Accounts payable	435,448	311,749
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	76,450	303,811
Advances received	89,167	66,815
Accrued interest, fees and commissions	163,311	122,932
Accrued liabilities and other accruals	551,441	462,269
Liabilities in settlement	3,077,788	2,028,191
Dividend payment liabilities	2,507,577	2,490,770
Taxes and contributions payable	30,125	97,306
Other liabilities	798,243	430,486
Balance as at December 31	**7,729,550**	**6,314,329**

Liabilities in settlement totaling RSD 3,077,788 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 947,782 thousand, liabilities related to buying and selling foreign currencys 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 Parent's Bank 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.

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36. EQUITY

36.1 Equity is comprised of:

In RSD '000

	December 31 2017	December 31 2016
Share capital	17,191,527	17,191,529
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	14,439,525	19,320,511
Revaluation reserves	5,934,564	6,439,985
Retained earnings	8,357,094	545,985
Loss for the period	(1,665,678)	(7,048,674)
Balance as at December 31	**67,100,116**	**59,292,420**

Capital structure

In RSD '000

	December 31, 2017			December 31, 2016		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	61	17,191,527	17,191,466	63	17,191,529
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**61**	**40,034,611**	**40,034,550**	**63**	**40,034,613**
Retained earnings	8,357,092	**2**	8,357,094	**545,985**	**-**	**545,985**
Loss for the period	**(1,665,678)**	**-**	**(1,665,678)**	**(7,048,674)**	**-**	**(7,048,674)**
Reserves from profit and other reserves	14,439,523	2	14,439,525	19,320,508	3	19,320,511
Revaluation reserves	4,385,025	-	4,385,025	4,579,456	-	4,579,456
Revaluation reserves (debit balance)	(109,194)	-	(109,194)	(67,159)	-	(67,159)
Translational reserves (Note 36.3)	1,658,733	-	1,658,733	1,927,688	-	1,927,688
Reserves	**20,374,087**	**2**	**20,374,089**	**25,760,493**	**3**	**25,760,496**
Capital	**67,100,051**	**65**	**67,100,116**	**59,292,354**	**66**	**59,292,420**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of December 31, 2017 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

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

Share Type	Number of shares 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 Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2017 was as follows:

Shareholder	Number of shares	% share
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
East Capital (lux)-Balkan Fund	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**

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

The structure of the Bank's shareholders with preferred shares at December 31, 2017 was as follows:

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

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

Revaluation reserves totaling RSD 5,934,564 thousand (2016: RSD 6,439,985 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,047,254 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,138,992 thousand, actuarial gains of RSD 89,585 thousand and translational reserves in the amount of RSD 1,658,733 thousand.

The dividend payout for priority shares according to the Annual Account for 2017, based on the interest rate on savings deposits in RSD, which is twelve months, amounts to 13,222 thousand RSD.

36. EQUITY (continued)

36.2. 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
Profit minus preferred dividends (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 loss 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) loss 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.

36. EQUITY (continued)

36.3. Cumulative foreign exchange losses and gains on foreign transactions
In RSD '000

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total (Note 36.1)
Balance as at January 1, 2016	**1,720,563**	**60,562**	**58,855**	**1,839,980**
Increase	107,191	(16,262)	(3,221)	87,708
Balance as at December 31, 2016	1,827,754	44,300	55,634	1,927,688
Increase	(290,273)	25,015	(3,697)	(268,955)
Balance as at December 31, 2017	**1,537,481**	**69,315**	**51,937**	**1,658,733**

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	In RSD '000 December 31, 2017	December 31, 2016
Operations on behalf and for the account of third parties	4,278,704	4,466,969
Taken-over future liabilities	37,815,296	35,025,089
Derivatives intended for trading under the contract currency	592,364	-
Other off-balance sheet items	464,660,032	512,478,491
Total	**507,346,396**	**551,970,549**

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

37.1 Guarantees and letters of credit

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

	In RSD '000 **December 31, 2017**	**December 31, 2016**
Payment guarantees (Note 4.1.1.)	4,021,866	4,336,212
Performance guarantees (Note 4.1.1.)	4,802,696	6,950,946
Letters of credit	104,330	84,143
Balance as at December 31	**8,928,892**	**11,371,301**

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).

37.2 Structure of commitments is provided below:

	In RSD '000 **December 31, 2017**	**December 31, 2016**
Unused portion of approved payment and credit card loan facilities and overdrafts	10,191,551	9,430,627
Irrevocable commitments for undrawn loans	17,539,762	12,232,330
Other irrevocable commitments	1,155,091	1,168,323
Other commitments per contracted value of securities	-	822,508
Balance as at December 31	**28,886,404**	**23,653,788**

Undisbursed overdraft credit cards include internal relationship based on business cards of KomBank INVEST with Parent Bank in the amount of RSD 200 thousand.

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

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

Operations on behalf and for the account of third parties in the total amount of RSD 4,278,704 thousand consist mostly of funds from the commission credits for the repayment of housing loans in the amount of RSD 3,513,622 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 292,102 thousand loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 464,660,032 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 155,362,509 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 78,012,427 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 112,322,129 thousand, repo placements in government securities in the amount of RSD 15,000,000 thousand the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 20,396,489 thousand (Guidelines for the application of IAS 39) and the amount of the accounting write-off of credit claims under the NBS Decision on accounting write-off balance assets in the amount of RSD 11,366,167 thousand.

The parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent banka does not bear the credit risk.

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

37.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2017, the management made provisions for potential losses in litigations in the amount of RSD 876,374 thousand (Note 34).

As at 31 December 2017, contingent liabilities - the basis of the claim against the members of the Group, were estimated at the amount of RSD 2,337,382 thousand (for 630 active items).

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 40,984,529 thousand (for 1,341 items of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

37.5 Commitments for operating lease liabilities are provided below:

	In thousands of RSD	
	December 31 2017	December 31 2016
Commitments due within one year	449,654	506,941
Commitments due in the period from 1 to 5 years	1,058,330	1,121,854
Commitments due in the period longer than 5 years	123,179	156,006
Total	**1,631,163**	**1,784,801**

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

37.6 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

During 2017, Parent banka, Komercijalna banka a.d. Budva and Kombank INVEST a.d. Belgrade did not have tax controls.

In the course of 2017, two tax controls of Komercijalna Banka a.d. Banja Luka.

38. RELATED PARTY DISCLOSURES

The Republic of Serbia owns 41.74% of the ordinary shares of the Home Bank and EBRD, London, which owns 24.43% of the ordinary shares of the Parent Bank. The parent bank has three dependent legal entities: Komercijalna banka ad, Budva, Komercijalna banka ad, Banja Luka and KomBank Invest ad, Belgrade.

Legal entities and individuals are regarded as affiliated persons if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related persons are also those persons who are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions transactions and other banking transactions.

Consolidated transactions with dependent entities are shown in Note 6.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

38. RELATED PARTY DISCLOSURES (continued)

38.1 Loans and receivables from related parties

In thousands of RSD

	2017.			2016.		
Placement	**On-balance**	**Off-balance**	**Total**	**On-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
GP Company doo	-	-	-	-	-	-
NOVA PEKARA doo UŽICE	-	-	-	1	-	1
ZLATIBORSKI KATUN BEOGRAD	-	-	-	1	-	1
Cedens company	29	63	92	-	-	-
Private individuals	155,978	14,338	170,316	460,580	67,428	528,008
Total	**156,007**	**14,401**	**170,408**	**460,932**	**73,428**	**534,360**
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
ABD COMPANY d.o.o., Beograd – u likvidaciji	-	-	-	-	-	-
Anfibija	189	-	189	-	-	-
Nova pekara d.o.o., Užice	-	-	-	801	-	801
Vladan Perišić SR Elektron, Zrenjanin	-	-	-	21	-	21
Goran Damnjanović, MARVIN+AZAMIT KRUŠEVAC	-	-	-	7	-	7
MM Enegro 2010 d.o.o. Užice	-	-	-	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 31)	-	-	-	-	6,173,615	6,173,615
Reprezent doo	12	-	12	-	-	-
Bolero ZR	8	-	8	-	-	-
Cedens company	2,364	-	2,364	-	-	-
Private individuals	113,841	-	113,841	505,350	-	505,350
Total	**116,414**	**2,145,943**	**2,262,357**	**511,580**	**10,759,729**	**11,271,309**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

38. RELATED PARTY DISCLOSURES (continued)

38.2 Income and expenses from related parties

	2017.		
	Interests	**Fees**	**Total**
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija	-	8	8
Private individuals	7,628	1,540	9,168
Total Income	**7,638**	**1,710**	**9,348**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Private individuals	394	512	906
Total Expenses	**384,868**	**5,644**	**390,512**
Net Expenses	**(377,230)**	**(3,934)**	**(381,164)**

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

38. RELATED PARTY DISCLOSURES (continued)

38.3 Gross and net remunerations

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

In thousands of RSD

	December 31 2017.	December 31 2016.
Gross remunerations		
Executive Board	143,026	207,762
Net remunerations		
Executive Board	109,096	169,685
Gross remunerations		
Board of Directors and Audit Committee	39,724	46,455
Net remunerations		
Board of Directors and Audit Committee	24,457	29,263

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDENDS

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual census conducted on December 31, 2017, the Parent Bank has non-compliant statements of open items for 24 clients with the stated reason for the denial 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 four clients, the non-compliant amounts relate to off-balance sheet items of irrevocable liabilities for unexpired loans, denial of the amounts shown in the letter of intent, disputed balance on individual batches of guarantees as of December 31, in the total amount of 9,035 thousand dinars.

Four clients disputed the 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.

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

Unreconciled Outstanding Item Statements (continued)

The parent bank is in a continuous process of harmonization of the disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad, Banja Luka has five non-compliant statements of open items in the amount of RSD 158 thousand.

Komercijalna banka ad, Budva has two non-compliant statements of open items in the amount of RSD 77 thousand.

Unrealized dividends

Unrealized dividend payments for the year 2017 amounted to (Note 35):

- 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 ordinary shares and RSD 28,686 thousand for priority shares.
- 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 contingent liabilities for payment of priority dividends based on the calculation for 2017 amount to RSD 13,222 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

40. 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.

41. EXCHANGE RATES

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

	NBS official exchange rate		NBS average exchange rate	
	2017	2016	2017	2016
USD	99.1155	117.1353	-	-
EUR	118.4727	123.4723	121.4027	123.1015
CHF	101.2847	114.8473	-	-
BAM	60.5741	63.1304	62.0722	62.9408

In Belgrade, March 15, 2018

Signed on behalf of Komercijalna banka ad, Beograd:

Miroslav Perić
Member of the Executive Board

Slađana Jelić
Deputy Chief Executive Officer

2017 ANNUAL REPORT ON OPERATIONS OF KOMERCIJALNA BANKA AD BEGRAD GROUP

March 2018

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

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

The Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the period have been reclassified by applying the average official exchange rate in the Republic of Serbia for 2017 of RSD 121,4027 for one EUR and RSD 62,0722 for one BAM, respectively while other Consolidated Financial Statements (Balance Sheet, Statement of Changes in Equity and Statement of Comprehensive Income) by applying the closing exchange rate as of balance sheet date of RSD 118,4727 for one EUR, or RSD 60,5741 for one BAM.

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

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

1. Key Performance Indicators of the Group

ITEM	2017	2016	INDICES 2017/2016	2015	2014	2013
PROFIT & LOSS ACCOUNT *(in RSD thousand)*						
Profit / loss before tax	7.316.383	(6.533.686)	-	(6.893.558)	4.792.801	4.400.642
Net interest income	13.517.238	14.456.333	93,5	14.839.373	14.436.051	14.128.460
Net fee income	5.413.601	5.093.523	106,3	5.190.282	4.983.940	4.829.281
BALANCE SHEET *(in RSD thousand)*						
Consolidated balance sheet assets	400.108.316	428.827.608	93,3	416.461.558	430.702.109	384.296.023
Off-balance sheet transactions	507.346.396	551.970.548	91,9	621.827.674	416.982.422	227.797.499
Loans and receivables from banks and other financial organisations	30.233.555	43.216.681	70,0	17.848.897	35.733.988	35.680.426
Loans and receivables from customers	174.242.139	166.401.008	104,7	179.422.656	203.828.648	195.554.454
Deposits and other liabilities to banks, o.f.o. and the central bank	6.137.776	9.822.519	62,5	18.768.726	26.247.764	23.227.373
Deposits and other liabilities to other customers	317.577.748	345.135.959	92,0	319.334.622	321.094.208	283.075.277
Capital	67.100.116	59.292.420	93,3	64.694.402	72.100.729	67.041.696
Capital adequacy	24,6%	26,2%	-	23,1%	18,7%	19,9%
Number of employees	3.106	3.152	98,4	3.148	3.178	3.233
PROFITABILITY RATIOS						
ROA	1,8%	(1,5%)	-	(1,6%)	1,2%	1,2%
ROE (on total capital)	11,6%	(10,5%)	-	(10,1%)	6,9%	6,8%
Net interest margin on total assets	3,3%	3,4%	-	3,5%	3,5%	3,9%
Cost / income ratio	64,0%	63,2%	-	60,4%	61,6%	59,8%
Operating expenses	12.119.512	12.363.223	98,0	12.092.310	11.953.592	11.327.317
Net income/expense from loan impairment	36.342	(13.079.497)	-	(13.807.580)	(2.821.458)	(3.359.720)
Assets per employee *(in RSD thousand)*	128.818	136.049	94,7	132.294	135.526	118.867
Assets per employee *(in EUR thousand)*	1.087	1.102	98,7	1.088	1.120	1.039

2. Business Operations and Organisational Structure of the Group

The Banking Group consists of three banks (the Parent Bank and two Subsidiaries) and one Investment Fund Management Company.

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

- Deposit operations (receiving and making deposits),
- Loan operations (lending and borrowing),
- Foreign currency, foreign currency exchange transactions and exchange operations;
- Payment transactions
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuance of guarantees, guarantees of a bill and other forms of sureties (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agency operations, with prior approval of the National Bank of Serbia;
- Other operations it is authorised to conduct under the law.

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

Komercijalna banka ad Budva performs the following operations:

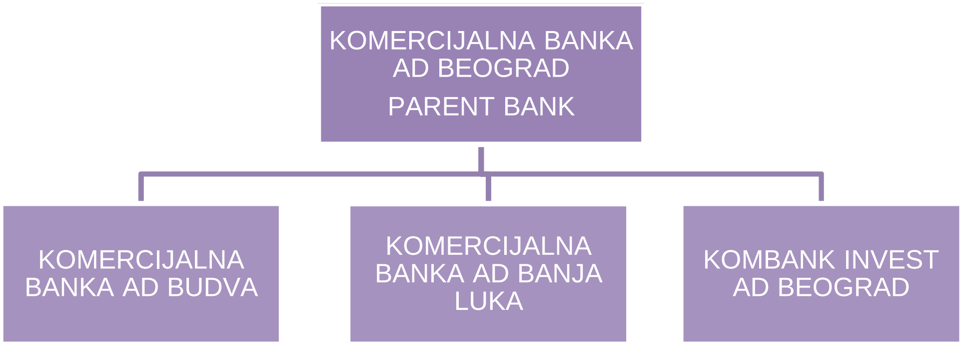
- Deposit operations (receiving and making deposits),
- Loan operations (lending and borrowing),
- Issuing of guarantees and undertaking other commitments,
- Debt purchase and collection,
- Issuing, processing and recording of payment instruments
- International payments,
- Financial leasing,
- Trading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

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

IFMC Kombank Invest ad Beograd is registered for the following operations:

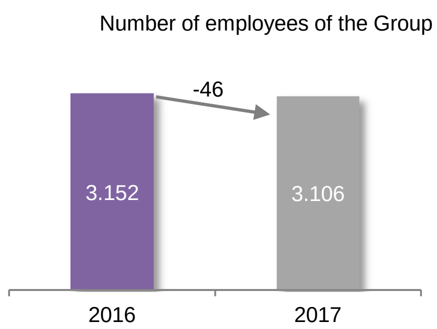
- Organising and managing open-end investment funds,
- Forming and managing closed-end investment funds,
- Managing private investment funds.

Organisational Chart of the Group



Human Resources of the Group

As at 31 December 2017, the Group had a total of 3.106 employees, which makes for 46 employees less than in the previous year 2016. Reduction occurred in the Parent Bank (52), while KB Budva increased the number of employees (5), as did KomBank INVEST (1), whereas KB Banja Luka maintained the same number of employees.



Key information about the Group members

	KOMERCIJALNA BANKA AD BUDVA	KOMERCIJALNA BANKA AD BANJA LUKA	IFMC KomBank INVEST A.D., BEOGRAD
ADDRESS	Podkošljun bb	Veselina Masleše 6	Kralja Petra 19
COUNTRY	Montenegro	BiH, Republic of Srpska	Serbia
PHONE	00382-33-426-300	00387-51-244-700	011-330-8160

KOMERCIJALNA BANKA AD BUDVA

100% owned by KB Beograd

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

- 138 employees,
- 3 branches and 10 sub-branches

KOMERCIJALNA BANKA AD BANJA LUKA

99,998% owned by KB Beograd

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

- 157 employees,
- 9 branches and 7 agencies

KOMBANK INVEST AD BEOGRAD

100% owned by KB Beograd

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

The company was incorporated as a closed joint stock company operating in accordance with the Law on Investment Funds, Regulations on Investment Funds and Rulebook on Conditions for Conducting Investment Fund Management Activities.

At the end of 2017 the Company managed three investment funds, including:

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

At the end of 2017 the Company had five employees.

Key information about the Parent Bank

Address/Head Office / Divisions	14, Svetog Save Street	42-44, Svetogorska Street	29, Makedonska Street
PHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
TELEX	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

KOMERCIJALNA BANKA AD BEOGRAD
40,8% owned by the Republic of Serbia 23,9% owned by EBRD, London

KOMERCIJALNA BANKA
Meni najbliža

Komercijalna banka AD Beograd, Parent Bank, was incorporated on 1 December 1970, and transformed into a joint stock company on 6 May 1992. The Bank is registered with the Commercial Court in Belgrade on 10 July 1991, and it was legally re-registered in the Commercial Register Agency on 14 April 2006. The Bank was granted a banking license by the National Bank of Yugoslavia on 3 July 1991.

- 2.806 employees,
- 6 business centres, 5 business corporate centres, one branch (KM) and 204 sub-branches.

	BUSINESS CENTRE	SEAT
1.	BC Beograd 1	Svetogorska 42-44, Beograd
2.	BC Beograd 2	Svetogorska 42-44, Beograd
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

	BUSINESS CORPORATE CENTRE	SEAT
1.	BCC Beograd	Svetogorska 42-44, Beograd
2.	BCC Užice	Gradski trg bb, Valjevo
3.	BCC Kragujevac	Save Kovačevića 1, Kragujevac
4.	BCC Niš	Episkopska 32, Niš
5.	BCC Novi Sad	Korzo 10, Subotica

Since mid-April 2017, the new organisational structure of business network of Komercijalna banka ad Beograd – Parent Bank has been fully implemented. Instead of the existing 24 branches, the Business Centres and Business Corporate Centres have been established. The Bank maintained the sub-branch network, which are classified into several types depending on type of services and products offered to customers (at the end of 2017 the Parent Bank had 204 sub-branches).

3. Financial Position and the Results of Operations of the Group

3.1 Macroeconomic business conditions

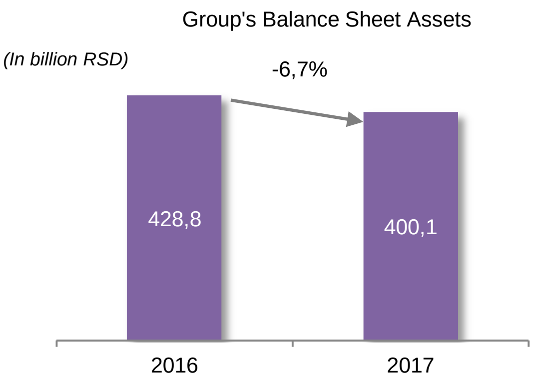
Macroeconomic Indicators	SERBIA	MONTENEGRO	REPUBLIC OF SRPSKA
Gross domestic product[1]	EUR 26,57 billion	EUR 4,23 billion	EUR 5,1 billion
GDP trends	+1,9%	+4,7%	+2,6%
Consumer price index (XII 2017 / XII 2016)	+3,0%	+2,4%	+0,6%
Banking sector assets	+1,6%[2]	+10,3%	+4,7%[3]
Banking sector assets as a share of GDP	102%	99%	70%
Industrial production (I-XII 2017 / I-XII 2016)	+3,5%[4]	-4,8%	+12,3%[5]
NPL of banking sector, or non-performing assets [6]	11,1%	7,0%	11,4%
Unemployment rate	12,9%[7]	21,6%	24,4%

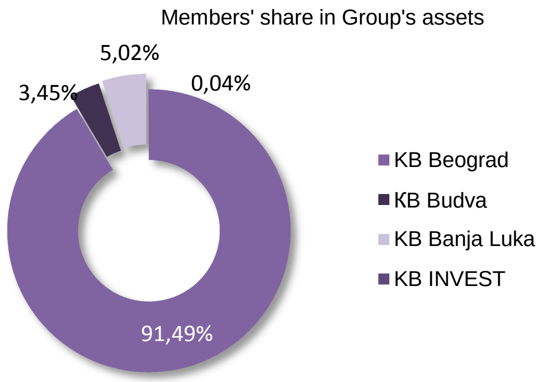
Note: Macroeconomic business conditions of the Group members according to available data of the relevant institutions

1 Estimate, for Serbia the estimate is +1,9%, SORS, Announcement for Public, 29.12.2017, amount in EUR is for the period Jan-Sep 2017
2 Growth of Serbian banking sector assets 30.09.2017/2016
3 Information refers to 30.09.2017, in relation to 31.12.2016
4 Information refers to the first ten months of 2017 relative to the same period 2016
5 Information refers to the first eleven months of 2017, compared to the same period 2016
6 Preliminary data, for Serbia, the information refers to November 2017(NPL/total loans), NBS
7 SORS, Labor Force Survey, End of 3Q 2017

3.2 Group's Operations

ITEM	2017	2016	2015	2014	2013
(in RSD thousand)					
GROUP'S BALANCE SHEET ASSETS	400.108.316	428.827.608	416.461.558	430.702.109	385.261.548
Komercijalna banka a.d. Beograd	366.074.702	397.222.810	387.378.734	400.168.484	357.506.995
Komercijalna banka a.d. Budva	13.801.705	13.212.323	12.497.800	13.939.442	12.251.085
Komercijalna banka a.d. Banja Luka	20.075.186	18.385.992	16.469.869	16.484.378	15.397.653
KomBank INVEST a.d. Beograd	156.723	6.483	115.155	109.805	105.815

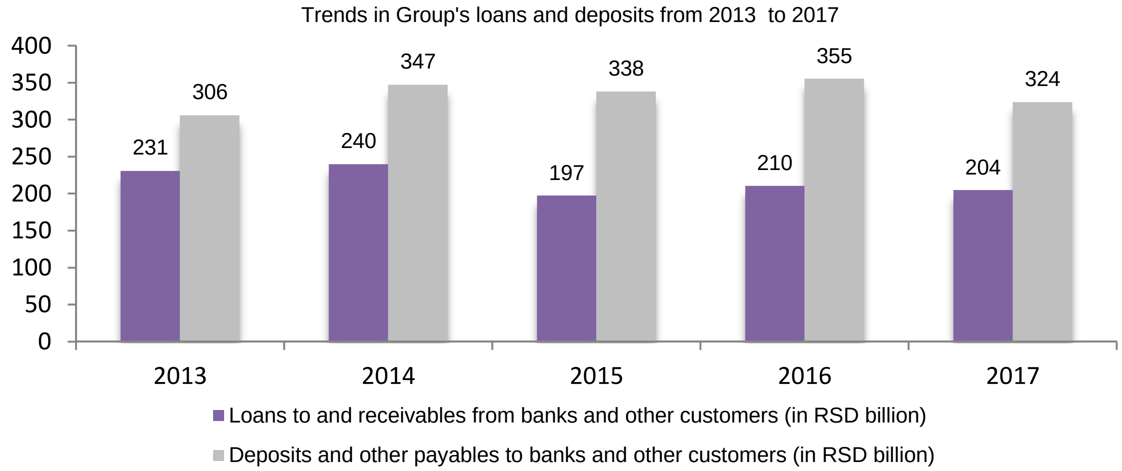




Group's balance sheet assets at the end of 2017 have been reduced compared to the end of 2016 by RSD 28.719,3 million (6,7%). Share of Parent Bank is still dominant (Group members account for 8,5% of total consolidated assets).

Loans and Liabilities of Banks and Customers as at 31 December 2017 by Group Members

ITEM	2017	2016	2015	2014	2013
(in RSD thousand)					
LOANS AND RECEIVABLES FROM BANKS AND CUSTOMERS	204.475.694	209.617.689	197.271.553	239.562.636	231.234.880
Growth rate	(2,5%)	6,3%	(17,7%)	3,6%	6,2%
Komercijalna banka a.d. Beograd	182.944.400	190.830.293	179.006.392	219.502.491	212.141.510
Komercijalna banka a.d. Budva	7.883.783	6.351.466	7.271.135	7.687.740	7.630.520
Komercijalna banka a.d. Banja Luka	13.647.511	12.435.930	10.994.026	12.372.405	11.462.850
KomBank INVEST a.d. Beograd	-	-	-	-	-
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	323.715.524	354.958.478	338.103.348	347.341.972	306.302.650
Growth rate	(8,8%)	5,0%	(2,7%)	13,4%	13,5%
Komercijalna banka a.d. Beograd	295.755.134	329.732.740	316.177.501	325.559.503	286.908.736
Komercijalna banka a.d. Budva	12.157.123	10.982.889	9.918.868	9.987.090	8.134.122
Komercijalna banka a.d. Banja Luka	15.803.267	14.242.849	12.006.979	11.795.379	11.259.792
Kombank INVEST a.d. Beograd	-	-	-	-	-



The Parent Bank's share in loans and receivables from banks and other customers of the entire Group was 89,5%, KB Budva 3,9%, and KB Banja Luka 6,7%. The Parent Bank also had a dominant share in deposits and other payables to banks and the Group's other customers of 91,4% (KB Budva – 3,8%, KB Banja Luka – 4,9%).

3.3 Consolidated Balance Sheet

The percentage of total consolidated balance sheet positions is not materially significant and account for 1,8% of balance sheet total on the aggregate Balance Sheet.

The following have been fully consolidated in the performed consolidation process:

- The Parent Bank's equity holdings in subsidiary banks and the Company at the initial exchange rate applicable to the holding (RSD 5.480,9 million),
- Internal receivables and payables between the Group members (RSD 1.746,0 million),
- Internal income and expenses between all Group members (net positive effect RSD 25,0 million).

ASSETS

Members of Komercijalna banka Group	Aggregate assets	Adjustment for consolidation	AMOUNT of asset consolidation	Consolidated assets	% share
1	2	3	4	5=2+3-4	6
(in RSD thousand)					
Komercijalna banka a.d. Beograd	369.183.538	2.869.029	5.977.865	366.074.702	91,49
Komercijalna banka a.d. Budva	14.820.784		1.019.079	13.801.705	3,45
Komercijalna banka a.d. Banja Luka	20.305.069		229.883	20.075.186	5,02
KomBank INVEST a.d. Beograd	156.772		49	156.723	0,04
TOTAL	404.466.163	2.869.029	7.226.876	400.108.316	100,00

LIABILITIES

Members of Komercijalna banka Group	Aggregate liabilities	Adjustment for consolidation	AMOUNT of liabilities consolidation	Consolidated liabilities	% share
1	2	3	4	5=2+3-4	6
Komercijalna banka a.d. Beograd	369.183.538	2.869.029	356.073	371.696.494	92,90
Komercijalna banka a.d. Budva	14.820.784		2.604.146	12.216.638	3,05
Komercijalna banka a.d. Banja Luka	20.305.069		4.126.538	16.178.531	4,05
KomBank INVEST a.d. Beograd	156.772		140.119	16.653	0,00
TOTAL	404.466.163	2.869.029	7.226.876	400.108.316	100,00

The share of subsidiaries in the total potential of the Group is not material, as it amounts to 8,5% at the end of 2017 (in 2016 it was 7,4%) of the Group's consolidated assets. Subsidiaries' share is even lower in the Group's liabilities where it stands at 7,1% (in 2016 it was 5,9%), since the members' equity invested by the Parent Bank is not taken into account for consolidation purposes.

Similarly as in earlier years, the Parent Bank has had a dominant share in the structure of all balance sheet positions of the Group and accounted for 91,5% in the structure of consolidated assets (in 2016 such share accounted for 92,6%). The share of the Parent Bank in the structure of consolidated liabilities is even higher and accounts for 92,9%. (in 2016 it accounted for 94,1%).

Group's Consolidated Assets as at 31 December 2017

No	BS POSITION	31.12.2017	31.12.2016	INDICES	SHARE 2017
1	2	3	4	5=(3:4)*100	6
	ASSETS *(in RSD thousand)*				
1.	Cash and assets held with the central bank	56.076.748	61.919.102	90,6	14,02%
2.	Held-for-trading financial assets presented at fair value on the P&L	5.424.642	247.862	2.188,6	1,36%
3.	Available-for-sale financial assets	116.097.938	139.808.210	83,0	29,02%
4.	Financial assets held to maturity	-	368.999	-	-
5.	Loans and receivables from banks and other financial organisations	30.233.555	43.216.681	70,0	7,56%
6.	Loans and receivables from customers	174.242.139	166.401.008	104,7	43,55%
7.	Intangible assets	498.387	394.546	126,3	0,12%
8.	Property, plant and equipment	6.017.200	6.251.187	96,3	1,50%
9.	Investment property	2.380.564	2.608.051	91,3	0,59%
10.	Current tax assets	5.622	7.283	77,2	0,00%
11.	Deferred tax assets	863.527	-	-	0,22%
12.	Available-for-sale non-current assets and assets from discontinued operations	787.618	349.523	225,3	0,20%
13.	Other assets	7.480.376	7.255.156	103,1	1,87%
	TOTAL ASSETS (from 1. to 13.)	**400.108.316**	**428.827.608**	93,3	100,00%

Of all individual balance sheet positions, the highest share in the Group's balance sheet assets was that of loans and receivables from customers (43,5%) and they are showing an upward trend in 2017 (they are increased by 4,7% in comparison to the end of 2016). Financial assets available for sale also make for an important consolidated assets position (29,0%) and they recorded a drop in 2017 (reduced by 17,0% relative to the end of 2016). Cash and assets held with the central bank had a share in total consolidated assets of 14,0% and have been reduced compared to the previous reporting period (reduction of 9,4%). Loans and receivables from banks and other financial organisations account for 7,6% of consolidated balance sheet assets and have been reduced by 30,0% when compared to 2016.

Group's Consolidated Liabilities as at 31 December 2017

No	BS POSITION	31.12.2017	31.12.2016	INDICES	SHARE 2017
1	2	3	4	5=(3:4)*100	6
	LIABILITIES (*in RSD thousand*)				
1.	Held-for-trading financial liabilities presented at fair value on the P&L	7.845	-	-	0,00%
2.	Deposits and other liabilities to banks, other financial organisations and the central bank	6.137.776	9.822.519	62,5	1,53%
3.	Deposits and other liabilities to other customers	317.577.748	345.135.959	92,0	79,37%
4.	Subordinated liabilities	-	6.178.390	-	-
5.	Provisions	1.551.883	2.021.507	76,8	0,39%
6.	Current tax liabilities	1.751	9.027	19,4	0,00%
7.	Deferred tax liabilities	1.647	53.457	3,1	0,00%
8.	Other liabilities	7.729.550	6.314.329	122,4	1,93%
9.	**TOTAL LIABILITIES (from 1. to 8.)**	**333.008.200**	**369.535.188**	90,1	83,23%
	CAPITAL				
10.	Share capital	40.034.550	40.034.550	100,0	10,01%
11.	Profit	8.357.092	545.985	1.530,6	2,09%
12.	Loss	(1.665.678)	(7.048.674)	23,6	(0,42%)
13.	Reserves	20.374.087	25.760.493	79,1	5,09%
14.	Interest without controlling rights	65	66	98,5	0,00%
15.	**TOTAL CAPITAL (from 10. to 14.)**	67.100.116	59.292.420	113,2	16,77%
16.	**TOTAL LIABILITIES**	**400.108.316**	**428.827.608**	93,3	100,00%

On the liability side dominant were deposits and other liabilities to other customers with share of 79,4% (in 2016 that share was 80,5%). Deposits and other liabilities to other customers are reduced in comparison to 2016 by 8,0%.

Total capital accounted for 16,8% in total consolidated liabilities (in 2016 the share was 13,8%). The same has been increased in comparison to 2016, primarily due to realized profit in the Parent Bank and the Subsidiary Banks.

Consolidated Balance Sheet as at 31 December 2017– Banking Group members

No.	POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Position / ASSETS *(in 000 RSD)*					
1.	Cash and assets held with CB	49.840.887	2.366.019	3.869.842	0	56.076.748
2.	Investment in securities	117.288.767	2.300.043	1.778.837	154.933	121.522.580
3.	Loans and receivables from banks and other financial organisations.	29.047.033	778.990	407.532	0	30.233.555
4.	Loans and receivables from customers	153.897.367	7.104.793	13.239.979	0	174.242.139
5.	Intangible assets	460.263	10.308	27.816	0	498.387
6.	Property, plant and equipment	5.655.248	305.336	56.586	30	6.017.200
7.	Investment property	1.988.608	112.256	279.700	0	2.380.564
8.	Other assets	7.896.529	823.960	414.894	1.760	9.137.143
9.	**TOTAL ASSETS (from 1. to 8.)**	**366.074.702**	**13.801.705**	**20.075.186**	**156.723**	**400.108.316**
	Position / LIABILITIES					
10.	Held-for-trading financial liabilities presented at fair value on the P&L	7.845	0	0	0	7.845
11.	Deposits and other liabilities to banks and other financial organisations	3.283.494	196.445	2.657.837	0	6.137.776
12.	Deposits and other liabilities to other customers	292.471.640	11.960.678	13.145.430	0	317.577.748
13.	Provisions	1.368.051	162.331	15.848	5.653	1.551.883
14.	Other liabilities	7.543.442	83.601	104.351	1.554	7.732.948
15.	**TOTAL LIABILITIES (from 10. to 14.)**	**304.674.472**	**12.403.055**	**15.923.466**	**7.207**	**333.008.200**
16.	Total capital	67.022.022	(186.417)	255.065	9.446	67.100.116
17.	**TOTAL LIABILITIES (15. +16.)**	**371.696.494**	**12.216.638**	**16.178.531**	**16.653**	**400.108.316**

I	**Assets by segments**	**366.074.702**	**13.801.705**	**20.075.186**	**156.723**	**400.108.316**
	Structure of adjusted positions					
-	Consolidated cash	0	(543)	(600)	(49)	(1.192)
-	Consolidated loans and receivables from banks	(496.756)	(1.018.536)	(229.283)	0	(1.744.575)
-	Consolidated investments in subsidiaries	(2.611.859)	0	0	0	(2.611.859)
-	Consolidated other assets	(221)	0	0	0	(221)
II	**Assets on individual BS**	**369.183.538**	**14.820.784**	**20.305.069**	**156.772**	**404.466.163**

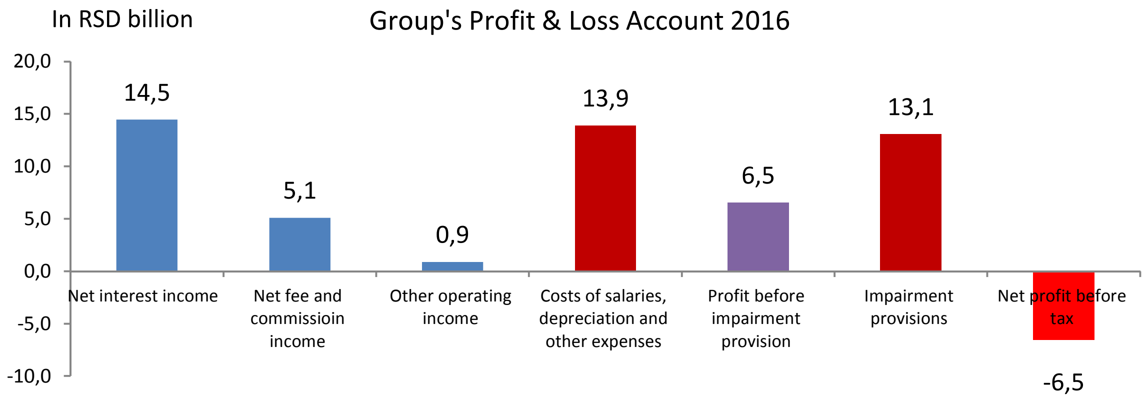
I	**Liabilities by segments**	**371.696.494**	**12.216.638**	**16.178.531**	**16.653**	**400.108.316**
	Structure of adjusted positions					
-	Consolidated deposits and liabilities to banks	(1.249.011)	(4.644)	(492.112)	0	(1.745.767)
-	Consolidated other liabilities	0	(61)	(41)	(119)	(221)
-	Consolidated total capital	3.761.967	(2.599.441)	(3.634.385)	(140.000)	(2.611.859)
II	**Liabilities on individual BS**	**369.183.538**	**14.820.784**	**20.305.069**	**156.772**	**404.466.163**
III	Balance Sheet total in original currency	369.183.538 RSD thousand	125.099 EUR thousand	335.210 BAM thousand	156.772 RSD thousand	

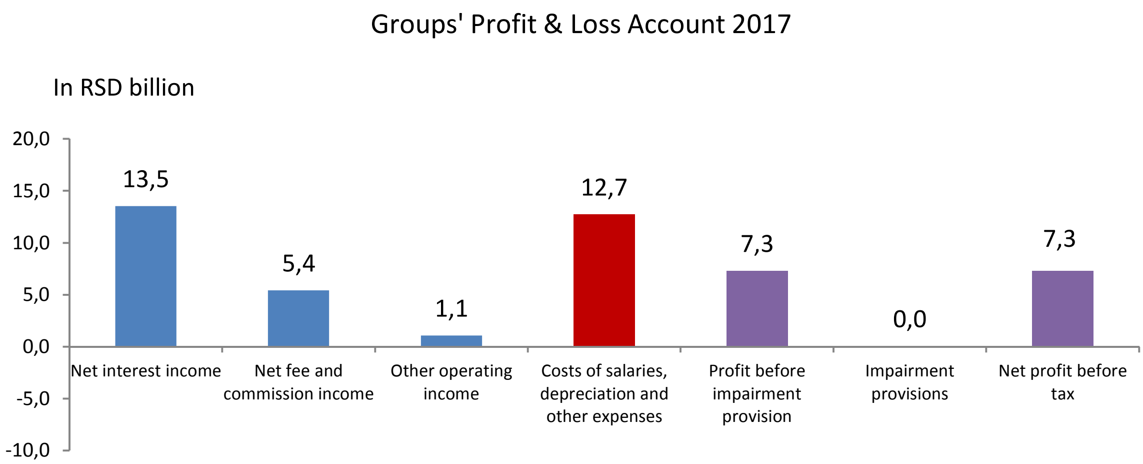
3.4 Consolidated Profit & Loss Account

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

Consolidated Profit & Loss Account for the period from 1 January – 31 December 2017

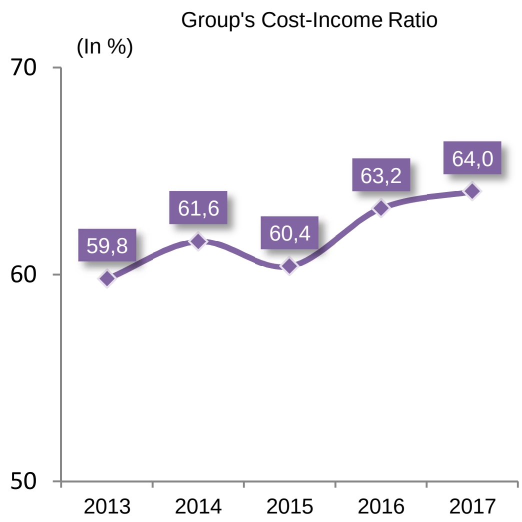
No.	POSITION	31.12.2017	31.12.2016	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE *(in RSD thousand)*			
1.1.	Interest income	15.358.399	17.934.819	85,6
1.2.	Interest expenses	(1.841.161)	(3.478.486)	52,9
1.	**Net interest income**	**13.517.238**	**14.456.333**	93,5
2.1.	Fee and commission income	7.159.507	6.643.289	107,8
2.2.	Fee and commission expenses	(1.745.906)	(1.549.766)	112,7
2.	**Net fee and commission income**	**5.413.601**	**5.093.523**	106,3
3.	Net profit from held-for-trading financial assets	108.900	76.323	142,7
4.	Net profit from available-for-sale financial assets	55.243	194.568	28,4
5.	Net income / expense from exchange differences and effects of agreed currency clause	(77.402)	6.076	-
6.	Net profit from investment in affiliates and joint ventures	306	5.143	5,9
7.	Other operating income	980.341	607.976	161,2
8.	Net income/expense from impairment of financial assets and credit risk-bearing off-balance sheet items	36.342	(13.079.497)	-
9.	**TOTAL NET OPERATING INCOME**	**20.034.569**	**7.360.445**	272,2
10.	Costs of salaries, fringe benefits and other personal expenses	(5.130.812)	(5.059.469)	101,4
11.	Depreciation costs	(625.680)	(729.726)	85,7
12.	Other expenses	(6.961.694)	(8.104.936)	85,9
13.	**PROFIT/LOSS (-) BEFORE TAX (from 1. to 12.)**	**7.316.383**	**(6.533.686)**	-
14.	Corporate income tax	(9.381)	(21.318)	44,0
15.	Deferred tax gain	1.366.704	315.718	432,9
16.	Deferred tax loss	(405.710)	(1.844)	22.001,6
17.	**PROFIT/LOSS(-) AFTER TAX (from 13. to 16.)**	**8.267.996**	**(6.241.130)**	-

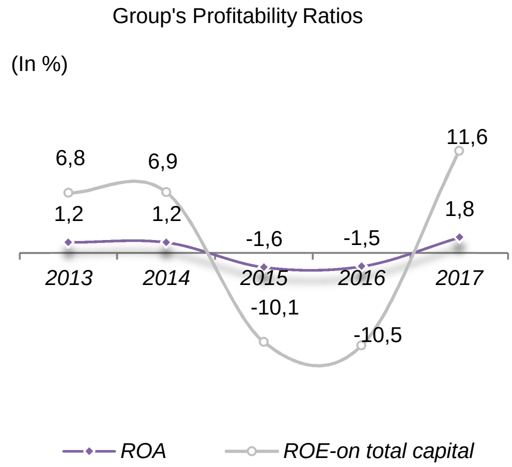




In 2017 a profit before tax was recorded at the Group level, unlike 2016 when the loss was recorded. The consolidated profit before tax of KB Group over the period from 01 January to 31 December 2017 amounts to RSD 7.316,4 million, contrary to the same period 2016 when the loss of RSD 6.533,7 million was recorded. During 2017 the interest income has been reduced, compared to 2016 (reduction by 14,4%), as were interest expenses (reduction by 47,1%), which resulted also in reduced net interest income (reduction by 6,5%). Consolidated fee and commission income throughout 2017 have been increased in comparison to the same period 2016 by 7,8%. Despite increase in fee and commission expenses by 12,7%, net fee and commission income is higher by 6,3% in comparison to 2016. Operating expenses and other business expenses have been reduced in comparison to the previous year by 8,5% (RSD 1.175,9 million).

Unlike 2016, when the Group recorded the net expense from impairment of financial assets and credit risk-bearing off-balance sheet items, in 2017 the net income was generated amounting to RSD 36,3 million.





Consolidated Profit & Loss Account by Group Members for the period from 1 January to 31 December 2017

	POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in RSD thousand)					
1.	Interest income	14.048.478	570.143	739.378	400	15.358.399
2.	Interest expenses	(1.606.137)	(76.856)	(158.168)	-	(1.841.161)
3.	**Net interest income**	**12.442.341**	**493.287**	**581.210**	**400**	**13.517.238**
4.	Fee income	6.692.276	190.745	254.228	22.258	7.159.507
5.	Fee expenses	(1.616.461)	(44.896)	(84.273)	(276)	(1.745.906)
6.	**Net fee income**	**5.075.815**	**145.849**	**169.955**	**21.982**	**5.413.601**
7.	Net result of investment in securities	148.121	534	10.386	5.102	164.143
8.	Net result of financial assets impairment	17.883	2.356	16.103	0	36.342
9.	Other operating income	826.826	46.887	29.489	43	903.245
I	**TOTAL NET OPERATING INCOME (3.+6.+7.+8.+9.)**	**18.510.986**	**688.913**	**807.143**	**27.527**	**20.034.569**
10.	Costs of salaries, fringe benefits and other personal expenses	(4.520.197)	(281.361)	(315.193)	(14.061)	(5.130.812)
11.	Other operating expenses	(6.868.705)	(322.576)	(384.986)	(11.107)	(7.587.374)
12.	Operating expenses (10.+11.)	(11.388.902)	(603.937)	(700.179)	(25.168)	(12.718.186)
II	**RESULT BY SEGMENTS (3.+6.+7.+8.+9.+12.)**	**7.122.084**	**84.976**	**106.964**	**2.359**	**7.316.383**
II	**Result by segments**	**7.122.084**	**84.976**	**106.964**	**2.359**	**7.316.383**
	Structure of adjusted positions					
-	Consolidated interest, net	(3.856)	17	3.941	(102)	0
-	Consolidated fee, net	(6.411)	1.916	2.974	1.521	0
-	Consolidated exchange differences	(54.899)	21.768	8.116	0	(25.015)
II	**Result on individual P&L**	**7.187.250**	**61.275**	**91.933**	**940**	**7.341.398**
III	**Result in original currency before tax**	**7.187.250 RSD thousand**	**504.734 EUR thousand**	**1.481.061 BAM thousand**	**940 RSD thousand**	

4. Environmental Investment

By adopting the Environmental and Social Risks Management Policy and Procedure at the Banking Group level, the Group set out standards for identifying and managing the environmental and social risks in the process of loan approval and monitoring. This document is adequately applied at the Group Members' level through incorporation of by laws at the level of each member while adhering to the local legislation and the internal bylaws of the Group members reconciled with the Bank's bylaws. Likewise, the Group develops activities in the area of protection of the environment and protection of the human and labour rights, by applying the best practice of sustainable financing. The internal bylaws define the procedure for solving and providing answers to complaints based on direct or indirect impact of business activities on environment and social issues.

Through the categorization of loans, depending on environmental and social risk level, the Group assesses in which per cent the activities that may adversely affect the environment are financed. Also, the Group continually monitors its clients for any extraordinary events that could adversely impact the environment, health or safety or the community in general and regularly reports its findings to the Bank's management bodies and Bank's shareholders.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group does not finance the clients whose main business activity is associated with the manufacturing or with trading in weapons and ammunition, radioactive materials and other technologies that may adversely impact the environment, thus ensuring compliance with the standards of good international practice in this field. Likewise, the Group operates in line with the defined limits of engagement with regard to activities: production and trading in alcoholic drinks, production and trading in tobacco and tobacco products and in gambling

The members of the Banking Group report on a monthly level to the Risk Management function of the Parent Bank and other relevant business and operational functions on risk levels from the aspect of environmental and social impact. In case of exceeding the internal limits, the members of the Banking Group deliver the explanation with the proposal of measures and the activity plan and the Risk Management function reports to the Bank's Executive Board and the international financial institutions (shareholders) on such exceeding. Risk Management function reports at six-month level to the Executive Board and to the Board of Directors on environmental and social risk management on consolidated basis, and the Republic of Serbia and the International Financial Institutions (shareholders) annually.

5. Significant Events After the Financial Year End

From 31 December 2017 until the end of February 2018 one regular General Meeting of Shareholders of the Parent Bank was held. The regular General Meeting of Shareholders of the Parent Bank was held on 29 January 2018. At this Meeting the following decisions were adopted:

-Decision on Release from Duty and the Appointment of the Member of the Board of Directors of Komercijalna banka ad Beograd;

- Decision on Release from Duty and the Appointment of the Chairperson of the Board of Directors of Komercijalna banka ad Beograd;

-Decision on Adoption of the Strategy and Business Plan of the Bank for the period 2018-2020.

Other significant events after the end of the Financial Year in KB Group, or in Group Members, are disclosed in the Notes to the Consolidated Financial Statements – Events after the Balance Sheet Date.

6. Plan for the Future Development of the Group

Operating strategies and plans for the future period are defined and adopted at the level of individual Group members8.

Operations of the Subsidiaries, the Group members, in the coming period will generally be focused primarily on maintaining a stable market share, but also on growth with acceptable level of credit risk. As regards the potential for retail finance in the coming period, the Group's member banks will be focused on financing the creditworthy clients with a sound credit history, on financing agricultural holdings according to their creditworthiness, taking into account the local-regional specifics in agriculture, as well as on financing the micro clients.
In the coming period, a prudential, conservative lending policy will be applied to corporate clients, where the focus will primarily be on the quality of loan portfolio, with enhanced monitoring of clients' business operations, financed projects and obtained collaterals. The aim is to timely identify all the warning signals that may indicate the inability of the clients to settle their obligations, or, which will underline the difficulties in collection of receivables. The strategies of the subsidiary banks-Group members for the upcoming period will still be oriented to financing of enterprises belonging to the segment of small and medium-sized enterprises while accelerating the very process of loan approval. The increase in scope of non-performing loans (NPL) is not expected in the future period.

The basic pillars of the development strategy of **Komercijalna banka Beograd**, the Parent Bank, in the following three-year period are[9]:

[8]Within this Item of the Report the unaltered parts taken from the individual Strategies and Business Plans of the Group members are presented
9 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Beograd

- growth of loans to customers (as a key aspect of the future profitability),
- control of operational risk in the future period aiming to maintain the low level of net expenses of impairment provisions (for reasons of significant credit losses recorded during 2015 and 2016),
- enhancement – change in the structure of clients based on demographics and standards (taking into consideration the development of innovative products) so that in addition to large companies the Bank intends to continue developing the segment of operations with the local self-governments, small and medium enterprises, as well as with clients from the countries in the region,
- growth of share of fee and commission income in relation to interest income (the Bank shall have stronger focus on fee and commission income given the trend of falling interest rates and the application of digitization and other development initiatives),
- control of amount of the operating expenses and further enhancement of efficiency in operations with the aim of reducing the operating expenses ratios against the income throughout the entire planning period (CIR),
- preservation of an adequate capital position, with the payment of cumulative dividends from previous years and dividends on the basis of planned profit in the next three-year period.

The main objectives of operations of **Komercijalna banka Budva** for the future planning period are as follows10:

- stable and sustainable business development.
- continuing improvement and target portfolio diversification.
- continuing strengthening of market share.
- active solving of problem of the acquired assets and NPL.
- strengthening of profitability.
- increasing efficiency of the network through reorganization of business operations.
- brand strengthening.

For period 2018-2020 KB Budva plans the following:

- preparation of the activity plans that include the time component of the sale of the acquired immovable property through harmonization of the results of negotiations, decision-making by the authorities in charge of decision making, preparation of the legal documentation (approval by fiduciary debtors, purchase agreements requiring the approval of the Bank as the owner of the immovable property, etc.), advertising the sale of real estate in accordance with the Law on Property and Legal Relations, etc.,

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- active communication with clients pertaining to acquired assets for the purpose of collection of the positions of acquired assets through restructuring of loans, along with providing the acceptable mortgage security,
- collection of positions of acquired assets through granting the approval by the fiduciary debtors by which the Bank will be able to freely advertise and sell the acquired real property,
- direct communication with clients and third parties for the purpose of offering and selling the positions of acquired assets,
- adopting the new Procedure for managing and disposing of the property acquired through collection of receivables.

Retail Transactions

The Action Plan of the Retail Banking Division anticipates a number of activities aiming to eliminate the barriers and to enhance the conditions for improving the business operations and achieving the planned objectives over the period 2018-2020:

- further activities on segmentation of market in order to identify the clients with high credit ratings (which will result in change of the name of the reference lists, principles and terms of being included in the lists) and to provide the alignment of lists with the product catalogue;
- improvement and simplification of product catalogue, as well as a transfer of decision-making on changes in catalogue at the Bank's level, or organizational unit (OU) for efficiency, speed and competition;
- delegating the decision-making authorisations to the level of Retail Banking Division for the regular approvals up to the certain level for the purpose of improving competitiveness and efficiency
- simplification and improvement of the loan process in order to speed up, make it more efficient and greater competitiveness,
- changes in procedures and methodologies of credit process or decision making for the possibility of regular and extraordinary approvals while the methodologies and procedures adjust to market conditions,
- division of loan portfolio across all employed sales stuff who will be responsible for both sales and collection and whose performance will be transparent and visible through weekly reports,
- a bonus scheme model that will track the individual performances of the sales stuff through the mentioned reports,
- the speed of decision-making and considerably shorter deadlines for operationalization of all dependent divisions, units and bodies, with a view to increasing the decision-making efficiency in matters falling under the competence of the Retail Banking Division;
- creating appropriate campaigns for targeted demand,
- adaptation and reconstruction of branch offices,
- relocation of branch offices,
- internal trainings;

- expansion of sales network through the opening of credit outlets, „travelling" sales stuff with minimum investments in the areas that are acceptable and attractive for the Bank from commercial and income-earning aspect-favourable way of the Bank's developing direction, which is necessary in a situation of reporting the negative operating results, and/or performance and constant closures, 6 branch offices in a short period of time.

Corporate Loans

Pursuant to the market conditions, existing and expected demand, the basis for growth of loan portfolio in the next year is in the credit potential of the segment of micro, small and medium-sized enterprises (annual income from EUR 1,0 – 20 million), through loans of smaller amounts to larger number of clients, in order to reduce credit risk and diversify the loan portfolio, as well as to expand the client base to creditworthy clients.

Orientation in corporate lending in the next period will pertain to the following economic activities:

- tourism and catering;
- trade and services;
- production and processing industry;
- construction and
- public sector.

Priority products that are the backbone of realization of the plan of growth of loans approved to the economy are:

- loans and investments for tourist purposes;
- loans for working capital with maturity of up to 36 months;
- loans for refinancing of performing loans with other banks with more favourable term and interest;
- designing a product package;
- investment loans;
- guarantee products and neutral banking services.

Corporate Banking Division will, in the upcoming period, continue to develop and improve its operations, through a new business approach to clients, based on continuing presence in the market, by applying the methods of consultative sales and assertive communication, with the aim of presenting the Bank as a strategic partner for long-term business cooperation. The above-mentioned means that the Corporate Banking Division will keep a clear business communication both with corporate clients and also with clients that belong to SMEs group.

In 2018 the Bank plans to additionally intensify the cooperation with Investment-development fund of Montenegro, strategic domestic partner when it comes to funding sources for certain long-term projects. Through this cooperation a better maturity match would be provided between funding sources and Bank's assets, and thus create a competitive advantage in terms of the level of fixed interest rate, prescribed for this type of loan.

As one of the strategic determinants of the Bank's development in the following years, the improvement of Bank's information system and introduction of new banking technologies has been defined.

The main goal of Bank's risk management is to minimize the potential losses, and also to maintain the same at the level that is acceptable for the Bank's risk profile. Bearing this in mind, and in accordance with the new challenges and trends in the financial sector, the Bank will, in the next three-year period, continuously invest in development and intensify the activities of the Risk Management Division, in order to successfully position itself in the market and protect its operations from the negative effects. The long-term objectives of risk management in KB Budva are the following:

- development of Bank's activities in line with the business possibilities and the development of the market and also with a view to creating the Bank's competitive advantages,
- avoiding or minimizing risks in order to maintain the Bank's operations within the frameworks of acceptable risk level,
- minimizing the negative effects on Bank's capital,
- maintaining the required capital adequacy level,
- diversification of risks the Bank is exposed to.

The following objectives are defined for the future period as the strategic goals of **Komercijalna banka Banja Luka**[11] **:**

1. Maintaining and improving the status of the stable financial institution with a growing scope of operations; strengthening the market positioning, with concurrent provision of support to the projects that are of strategic importance for the development of the economy of the Republic of Srpska and BiH;
2. Expanding the client base with market identification of Bank's services according to the needs of their users with active marketing activities;
3. Active loan portfolio management and provision of support to the efficient process for identifying and supervising the initial level of risk exposure or the risks associated to already approved loan exposures, which will enable for the portfolio structure with the controlled risk;
4. Growth of non-interest bearing income, bearing in mind the low interest rate environment and also the trend of reducing interest rates;
5. Combining positions of assets and sources of funds with a view of achieving the efficient liquidity and profitability of the Bank's operations;
6. Increase in loan portfolio in the corporate and retail segment, through financing the segment of low credit risk, with continuing focus on „cross selling";
7. Expansion of business network, or strengthening the Bank's presence in areas with high lending potential;

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8. In addition to accomplishing the above goals, a concurrent control of business expenses, particularly operating expenses, with a view of achieving greater business efficiency.

In the forthcoming period the Bank's objectives in area of retail operations are as follows[12]:

- Increase of activities and maintaining a further growth of the Bank in area of deposit operations;
- Introduction of product packages for retail customers, which would enable the clients to use multiple different products of the Bank at lower prices within the selected package, while the Bank, on the other hand, would increase cross-selling of products;
- Realisation of conditions for sale of products at special offers (housing and non- special purpose loans, credit cards, electronic services), which would create the preconditions for sales growth;
- Introduction of new products, which will be conducted by adjusting to the needs and capabilities of the clients and by examining the market conditions;
- Active approach to monitoring an individual loan depending on initial risk assessment at initial sales;
- Focusing on proactive sale of products by the employees in the Division and in the Bank's Business Network, both inside the Bank's premises, and also through field visits to companies and through making presentations by which the Bank's products would be presented to the employees;
- Enhanced cooperation with the Unit for Marketing and Product Development, with a view of adequate and timely product promotion;
- Education of employees, both credit managers and the tellers, with the aim of enabling them to carry out the proactive sale of Bank's products;
- Improvement of business efficiency through improvement of policies, procedures and instructions.

In the segment of corporate operations the Bank's main activity will be the increase in number of clients and increase of loan portfolio through greater diversification of loans in individual smaller amounts. The target segment will be the companies in the processing, trade and service industries. For the future period enhanced sales activity is planned, which will be directed to the segment of micro, small and medium-sized enterprises. It is expected, primarily in 1Q 2018, a further drop in lending interest rates, but at somewhat slower space in comparison to previous years.

In the segment of corporate deposit management the future policy of the Bank is focused on achieving effectiveness, whereby the activities are focused on[13]:

- Achieving the effectiveness of keeping the assets given the sizes of loans, and hence the achievement of the planned profitability;

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13 Ditto

- The projected amounts of deposits are determined by development of real sector, excess cash of non-banking financial sector and by the plan of growth of Bank's loans;
- In the segment of short-term deposits the increase in share of more stable a vista deposits as cheaper sources of funds, which will be reflected in the price reduction of sources, and on the other hand also contribute to dispersion of the concentration of term deposits;
- Reduced concentration of deposits with continuing trend of lower interest rates;
- Quarterly monitoring of the movement of the borrowing interest rates in the market and in relation to the competition and giving timely requests for correction of borrowing interest rates;
- The most important sources of deposits will still be deposits of public institutions and administration, corporate clients in field of telecommunications, trade, non-banking financial institutions.

In the reporting future period (2018-2020) a trend of stable interest margin is planned. The policy of interest rates for the year 2018 is directed at reduction of borrowing interest rates, which will be achieved by individual approach to certain groups of clients. In 2019 and in 2020 stabilisation of movements of both lending and borrowing interest rates with a slight increase in interest margin is foreseen[14].

The business goals of the Company **KomBank INVEST Beograd** remain a strong growth of business operations, accompanied by a growth of investment funds and operating revenues of the Company. In the next three year period the Company aims to improve the level of business operations, to increase the assets of investment funds and expand the base of investors investing in investment funds[15]. The basic mission of the Company is to improve the business operations and to achieve positive business results. In order to achieve this mission, three key objectives must be met[16]:

1. Considerable increase of income from fund management.
2. Quality management and maintenance of the Company's expenses within the planned zone.
3. Maintenance of stable financial revenues that the Company realizes.

As the main medium-term goal, constant growth of total revenues and better positioning of investment funds in the domestic market is being set. The planned profit for the period 2018.-2020 has been determined based on expenses, which are expected in the coming period, and also based on revenues, which can realistically be expected. Business cooperation has been established between the Parent Bank and the Management Company in the sales activities of investment units, which should contribute to the increase of the assets of funds, and to enable the Company to increase the operating income in the coming years.

14 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Banja Luka
15 Business Plan of Management Company 2018-2020
16 Business Plan of Management Company 2018-2020

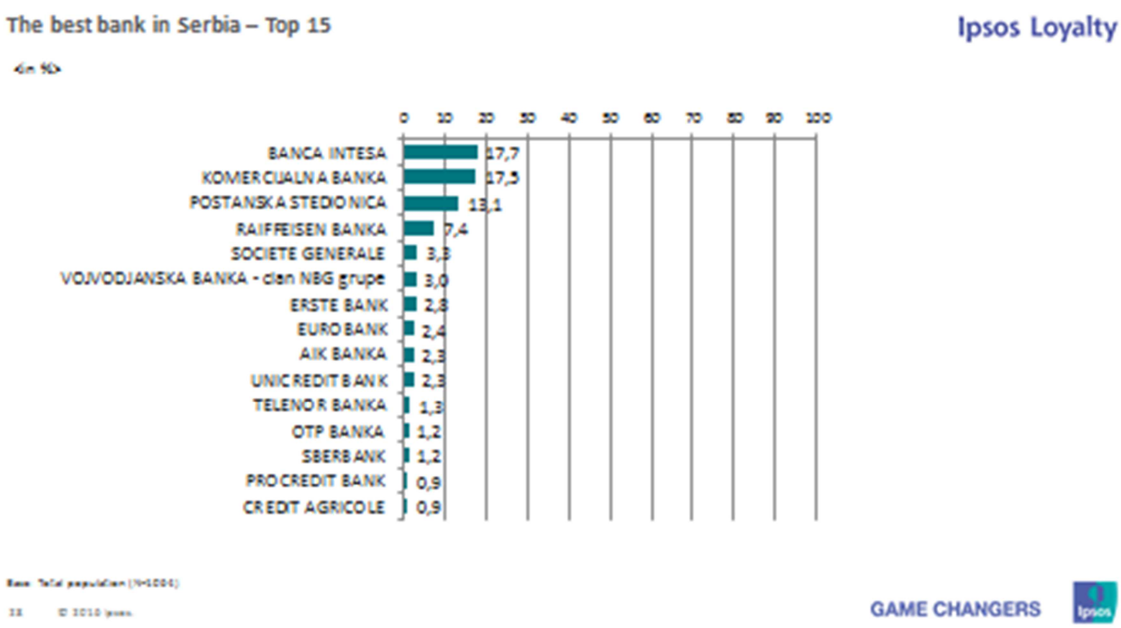
Planned Operating Performance by Group Members in the next three years:

GROUP MEMBERS	KB BEOGRAD			KB BUDVA			KB BANJA LUKA			KomBank INVEST		
Plan in %	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Asset growth	3,8	5,1	5,9	0	10,0	10,0	14,3	10,0	10,0	-	-	-
ROE	11,2	11,2	11,3	2,5	4,0	5,0	2,3	3,0	4,3	5,7	7,9	10,2
ROA	1,9	1,9	1,9	0,4	0,6	0,7	0,4	0,5	0,6	5,6	7,7	10,0
Cost/Income ratio	57,8	56,2	54,7	89,8	82,6	77,5	79,6	76,9	72,6	-	-	-
NIM(Interest margin on average assets)	3,3	3,3	3,2	4,8	4,9	4,9	2,9	3,0	3,0	-	-	-

7. Research and Development

The Banking Group continually monitors activities in the banking product market. In doing so, it uses its own available staff and also outsources specialised, independent agencies for public opinion research.

Market Survey: IPSOS Strategic Marketing, Banking Omnibus, November 2017



The agencies provide customer satisfaction survey data. According to their analyses, the Group is the leader in brand recognisability and service quality.

Survey results inform the business decisions process, which is particularly important to the development of new products and services and improvement and modification of the existing ones.

Through the continual monitoring of market signals and the needs of customers and potential clients, the Group's business sectors have, in previous period offered to customers new certain types of retail and micro loans and/or improved the existing ones and have developed a wide range of services sufficient for the local market in the segments of e-banking and payment and credit cards.

8. Purchase of Own Shares and Stakes

Group members have not purchased own shares in the past financial year and do not intend to purchase own shares in the upcoming period.

9. Performance of Subsidiaries before Consolidation

The subsidiaries Komercijalna banka AD Budva and Komercijalna banka AD Banja Luka keep their books of account and compile their financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina (Republic of Srpska), respectively. KomBank INVEST AD Beograd compiles its financial statements in accordance with the accounting regulations of the Republic of Serbia.

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

- the accounting regulations of the Republic of Serbia,
- internal bylaws of the Parent Bank - Komercijalna banka a.d., Beograd and
- relevant IAS and IFRS.

Individual Balance Sheets of the Group Members before consolidation as at 31.12.2017

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
(in RSD thousand)				
Cash and assets held with central bank	49.840.887	2.366.561	3.870.442	49
Investment in securities	117.288.767	2.300.043	1.778.838	154.933
Loans and receivables from banks and other financial organisations	29.543.789	1.797.526	636.815	0
Loans and receivables from customers	153.897.367	7.104.793	13.239.979	0
Investment in subsidiaries	2.611.859	0	0	0
Intangible assets	460.263	10.308	27.816	0
Property, plant and equipment	5.655.248	305.336	56.585	30
Investment property	1.988.608	112.256	279.700	0
Other assets	7.896.750	823.961	414.894	1.760
TOTAL ASSETS	**369.183.538**	**14.820.784**	**20.305.069**	**156.772**
Held-for-trading financial liabilities presented at fair value on the P&L	7.845	0	0	0
Deposits and other liabilities to banks and other financial organisations	4.532.505	201.090	3.149.948	0
Deposits and other liabilities to other customers	292.471.640	11.960.678	13.145.430	0
Provisions	1.368.051	162.331	15.848	5.653
Other liabilities	7.543.442	83.661	104.393	1.674
TOTAL LIABILITIES	**305.923.483**	**12.407.760**	**16.415.619**	**7.327**
Total capital	63.260.055	2.413.024	3.889.450	149.445
TOTAL LIABILITIES	**369.183.538**	**14.820.784**	**20.305.069**	**156.772**

Individual Profit & Loss Accounts of the Group Members before consolidation for the period from 1 January to 31 December 2017

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
(in RSD thousand)				
Interest income	14.052.436	570.143	739.379	502
Interest expenses	(1.606.239)	(76.874)	(162.109)	0
Interest gains	**12.446.197**	**493.269**	**577.270**	**502**
Fee and Commission income	6.700.216	191.377	255.124	22.258
Fee and Commission expenses	(1.617.990)	(47.444)	(88.143)	(1.797)
Fee and commission gains	**5.082.226**	**143.933**	**166.981**	**20.461**
Net profit/loss from sale of securities	148.121	534	10.386	5.102
Net income/expense from exchange differences and currency clause	(56.358)	2.638	1.314	20
Other operating income	938.083	22.482	20.059	23
Net income/expense from indirect loan write-offs and provisions	17.883	2.357	16.103	0
Operating and other business expenses	(11.388.902)	(603.938)	(700.180)	(25.168)
PROFIT/LOSS (-) BEFORE TAX	**7.187.250**	**61.275**	**91.933**	**940**
Income corporate tax (current and deferred)	930.118	29.932	(8.402)	(35)
PROFIT/LOSS (-) AFTER TAX	**8.117.368**	**91.207**	**83.531**	**905**

10. Financial Instruments Relevant for Assessment of Group's Financial Position

At the end of the Financial Year 2017 for the assessment of the financial position of the Group the following financial instruments (positions) are of key importance: loans and receivables from the customers, financial assets available for sale, deposits and liabilities to other customers and the capital.

The position loans and receivables from the customers accounted for 43,5% of total consolidated assets and have been increased by RSD 7.841,1 million, compared to 2016. Detailed structure of loans to customers is presented in the note to the consolidated financial statements. Financial assets available for sale accounted for 29,0% of total consolidated assets and have been reduced by RSD 23.710,3 million in comparison to 2016 and largely related to investment of the Parent Bank in securities of the Republic of Serbia (detailed structure is stated in the note to the consolidated financial statements).

On the other hand, deposits and other liabilities to other customers accounted for 79,4% of consolidated liabilities and have been reduced by RSD 27.558,2 million. Deposits represented the main source of financing the subsidiaries and the Parent Bank, where the Parent Bank also returned the subordinated debt in December 2017 (detailed structure is indicated in the Notes to the Consolidated Financial Statements).

The Group' capital accounted for 16,8% of consolidated liabilities and has been increased by RSD 7.807,7 million mainly due to realization of profit by the Parent Bank, but also by other Group members.

Group members are well capitalized, and the capital adequacy ratio of the Group stands at 24,6% and is considerably above the prescribed limit (8%).

11. Risk Management

The Group has recognised the risk management process as a key element of managing its business operations, as exposure to risks is inherent to all business operations, as inseparable part of banking operations, which is managed through risk identification, measurement assessment, monitoring, control and mitigation, and reporting on risk, i.e. by establishing risk limitation, as well as through reporting in accordance with the applicable strategies and policies.

The Group has put in place a comprehensive and reliable risk management system, which includes: risk management strategies, policies and procedures, specific risk management methodologies; an appropriate organisational structure; an effective and efficient process for managing all risks to which the Group is or may be exposed in its operations; an adequate internal control system; an appropriate information system; and a sufficient internal capital adequacy assessment process. Also the Group's Recovery Plan has been integrated into the risk management system, as a mechanism for early identification of the situation of a severe financial disturbance in which the Group can undertake the measures or apply the defined recovery options to prevent entering into the early intervention phase in which the regulator has an active participation or improvements in the already deteriorated financial situation

The Group's Risk Management Strategy and Capital Management Strategy set out the following objectives within the risk management system: minimising adverse effects on financial result and capital subject to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, development of the Group's activities in accordance with its business potential and possibilities and market development to achieve competitive advantages, diversification of risks to which the Group is exposed, maintaining the NPL share in total loans up to the acceptable level for the Group, maintaining liquidity assets coverage ratio above the level prescribed by the regulations and the internal limits.

The Group continually monitors all the announcements and changes to the regulatory framework, analyses the impact on risk level and undertakes measures for timely compliance of its operations with the new regulations, such as the implementation of the International Financial Reporting Standard 9 (IFRS 9). Through clearly defined process of introduction of new and considerably altered products, services and activities relating to processes and systems, the Group analyses their impact on future exposure to risks with the aim to optimize its income and expenses for the assessed risk, as well as to minimize all potentially possible adverse effects on the financial result of the Group .

Detailed view of Group's risk management objectives and policies is provided in Item 4 of the Notes to the Consolidated Financial Statements.

Credit Risk Exposure Protection Policy

To safeguard against credit risk exposure, the Group applies the credit risk mitigation techniques by obtaining acceptable security instruments (collaterals) as secondary sources of loan recovery (collection of loans). The Group strives to deal with creditworthy clients, assessing their creditworthiness at the time of submitting the loan application and by regular monitoring of debtors, loans and collateral in order to be able to timely undertake relevant debt collection activities. The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis and the collateral is obtained after the signing of an agreement, but before loan disbursement.

The collateral valuation, and/or credit protection instruments valuation and the management of the same are governed by the Group's internal bylaws.

When evaluating the collateral, the Group hires the authorized valuers, in order to minimise the potential risk of unrealistic valuation, while the property, goods, equipment and other pledged chattels must be insured with an insurance company acceptable to the Group with the insurance policies transferred, and/or assigned in favour of the Group.

To safeguard against changes in the market value of collateral, the appraised value is adjusted for defined impairment percentages depending on the type of collateral and location of the property, which are subject to regular review and revision.

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

For the purpose of adequate risk management, the Group performs analyses of credit risk at the time of loan approval and by establishing the system for monitoring, preventing and managing the risky loans, including the adequate identification of potentially risky clients (Watch List) it performs the credit risk mitigation with clients of the above status, and also by undertaking the measures and actions in order to protect the interest of the Group and to prevent the adverse effects on its financial result and capital

During 2017 the Group continued improving the risk management system. It revised the Risk Management Strategy and Individual Risk Management Policies, supplemented the policies and procedures in order to comply them with the changes in local and international regulations. Pursuant to changed legal requirements, the credit risk management has been improved. Also, the Group made significant changes in the organizational structure, mainly with the Parent Bank (grouping of branches of the Parent Bank into the Business Centres, organizational changes within the Corporate and Retail Functions, changes in decision-making – abolition of credit committees in individual branches and Credit Committee for retail customers, micro business and agriculture, Work-Out Committee, Liquidity Committee and Investment Committee). At the level of the Parent Bank there is one, Central Credit Committee, and within the Risk Management Function the persons are appointed with the authorities for decision –making. In 2017 the Group was focused on enhancement of the quality of the loan portfolio by reducing the occurrence of new non-performing loans and solving the problem of clients who have already been recognized as non-performing, and it also conducted activities on reducing uncollectible loans (improved collection, sales /assignment, and also a write-off by transfer of fully impaired receivables to off-balance sheet records). Pursuant to the Decision of the National Bank of Serbia on Accounting Write-Off of Bank Balance Sheet Assets (applied as of 30.09.2017), and also in line with the regulations of the Central Bank of Montenegro, the Parent Bank and Komercijalna banka Budva have transferred 100% provisioned loans from balance sheet to off-balance sheet records, which resulted in reduction of NPL ratio. In Komercijalna banka Banja Luka there was no transfer of 100% provisioned loans to off-balance sheet records and so the reduction of NPL with the said subsidiary is exclusively a result of collection of risky loans.

The real growth of impairment provisions (P&L) in the Group in 2017 was considerably below the planned value for 2017, because the collection of risky loans was significantly higher than the planned one. Also, the small growth of impairment provisions was impacted by conservative policy of approval of loans in 2017. With the subsidiary from Budva, there was also a real reduction of impairment provision on loans due to collection of risky loans, but in the segment of assets acquired through the collection of receivables the impairment provision has been considerably increased pursuant to new market valuations that were lower than previous ones. Reduction in impairment provisions in balance sheet in the Group came as a result of transfer of 100% impaired loans from balance sheet to off-balance sheet records. Since 01.01.2018 the Group has applied IFRS 9 standard and in accordance with this standard it implemented the new Methodology for assessment of balance sheet assets impairment and probable loss on off-balance sheet items. From the concept of „incurred losses“ it is now being transferred to the concept of „expected losses“, and portfolio is differentiated at three levels (level 1 – PL clients without identified deterioration of credit risk, level 2 – PL clients with identified deterioration of credit risk, level 3 – NPL clients). Country exposure (the highest share is that of the securities) is also impaired. The Group reconciled all the relevant internal bylaws in accordance with the implementation of IFRS 9 standard.

In its operations the Group was particularly exposed to the following types of risks:

- Credit risk and related risks
- Liquidity risk.
- Market risk.
- Interest rate risk in the banking book.
- Operational risk.
- Investment risk.
- Large exposure (risk) and
- Country risk and all other risks that may arise in Group's regular operations.

Exposure to Credit Risk

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

The acceptable level of exposure to credit risk for the Group is in line with the defined Risk Management Strategy and depends on the structure of the Group's portfolio, based on which it is enabled to limit the adverse effects on the financial result and capital of the Group, with minimizing the capital requirements for credit risk, settlement/delivery risk on free deliveries, counterparty risk, dilution risk, with the aim to maintain the capital adequacy at acceptable level. The Banks, the Group members, manage the credit risk at client level, group of related entities and the entire loan portfolio. They also approve the loans to clients (corporate and retail customers) for whom they assess to be creditworthy, by conducting the analysis, or the quantitative and/or qualitative measurement and assessment of credit risk, or the financial position of the debtor. The process of measuring the credit risk is based on measurement of the risk level of an individual loan on the basis of the internal rating system, and also by application of regulations. By monitoring and controlling the portfolio as a whole and by individual segments, the Group carries out comparison to previous periods, identifies trends and causes of changes in the level of credit risk. Also, it monitors the asset quality indicators (NPL trends, coverage ratio of NPL by impairment provisions and alike), as well as the exposure according to the regulatory and internally defined limits. The process of loan quality monitoring allows the Group's members to assess potential losses as a result of the risks to which they are exposed and to undertake the appropriate corrective measures.

Exposure to Liquidity Risk

Liquidity risk is the possibility of occurrence of negative effects on the Group's financial result and capital due to inability of the Group's members of its members to settle their liabilities when due and to obtain liquid assets in a short period of time without major expenses. The liquidity risk manifests itself as difficulty of the Group in settling the matured liabilities in case of insufficient liquidity reserves and inability of covering the unexpected outflows of other liabilities.

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

Liquidity risk also manifests itself as inability of the Group to convert certain parts of its assets into liquid assets in a short period of time. The Group conducts analyses of the risk of sources of funds and market liquidity risk. The liquidity problem from the funding aspect refers to the structure of liabilities and manifests itself as a potentially significant share of unstable sources or short-term sources or their concentration. The liquidity risk of sources of funds indeed represents a risk that the Group will not be able to settle the liabilities due to withdrawal of unstable sources of funds, or inability of obtaining new funding sources. On the other hand, the liquidity risk also manifests itself through deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices.

Pursuant to the Decision of the National Bank of Serbia on Liquidity Risk Management by Banks, which has been applied since 30.06.2017, the Parent Bank, as well as Group members, reconciled their operations in part of provisions of the regulations that relate to Liquidity Coverage Ratio (LCR), high-quality liquid assets or (HQLA) to cover short-term liquidity requirements. During 2017 the Group complied with the regulatory and internally defined limits.

The Parent Bank, as well as Group members, actively undertakes preventive measures in order to minimize the exposure to liquidity risk.

Exposure to Market Risks

Market risk represents the possibility of occurrence of adverse effects on the financial result and capital of the Group due to changes in market variables and includes foreign exchange risk relating to all of its operations and the price risk relating to the trading book positions.

The Group is exposed to foreign exchange risk, which manifests itself as the possibility of occurrence of negative effects on its financial performance and capital due to foreign exchange rates volatility, changes in the value of national currency relative to foreign currencies or changes in the value of gold or other precious metals. To minimise its exposure to foreign exchange risk, the Group diversifies the currency structure of its portfolio and the currency structure of liabilities and matches open positions by specific currencies, in accordance with the principle of maturity transformation of assets. In 2017, the Group complied with the regulatory foreign exchange risk ratio, which is set at 20% of the regulatory capital.

Exposure to Interest Rate Risk

Interest rate risk represents the risk of occurrence of adverse effects on financial result and capital of the Group based on positions from the banking book due to adverse changes in interest rates. The Parent Bank, as well as Group members, comprehensively and timely identify the causes of any current exposure to interest rate risk and assess the factors of the 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 result and economic value of equity by applying an appropriate policy of maturity match in the repricing period and by matching sources of finance with loans by types of interest rates and maturity.

Exposure to Operational Risks

The operational risk is a risk of possible occurrence of negative effects on financial result and capital of the Group due to omissions of its employees, inadequate internal procedures and processes, inadequate management of information and other systems at the Group's member banks or due to unforeseeable external events. Operational risk also includes legal risk, which is a risk of occurrence of negative effects on the Group's financial result and capital due to lawsuits or out-of-court proceedings. The Group undertakes measures 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 practice and optimise the Group's operating processes. To minimise legal risk and its effects on financial result, the Group continues improving its business practice in part of timely provisioning for lawsuits against the Group's member banks, and in compliance with the assessment of anticipated future loss on this basis.

Investment Risk

The Group's investment risk represents a risk of investment in other legal entities and in fixed assets and investment property. The level of permanent investment is monitored in accordance with the regulations and the Group's Bodies and Committees are notified accordingly. This ensures that investments by Group members in a single entity outside of the financial sector do not exceed 10% of the Group's capital and that investments by Group members in entities outside of the financial sector and in fixed assets and investment property of the Group do not exceed 60% of the Group's capital.

Large Exposure

Large exposure of the Group to a single entity or a group of related entities, including the Group's related entities, is defined as any exposure the value of which is at least 10% of the Group's equity. In 2017, the Parent Bank and the banks-Group members complied with the regulatory and internally defined exposure limits.

Exposure to Country Risk

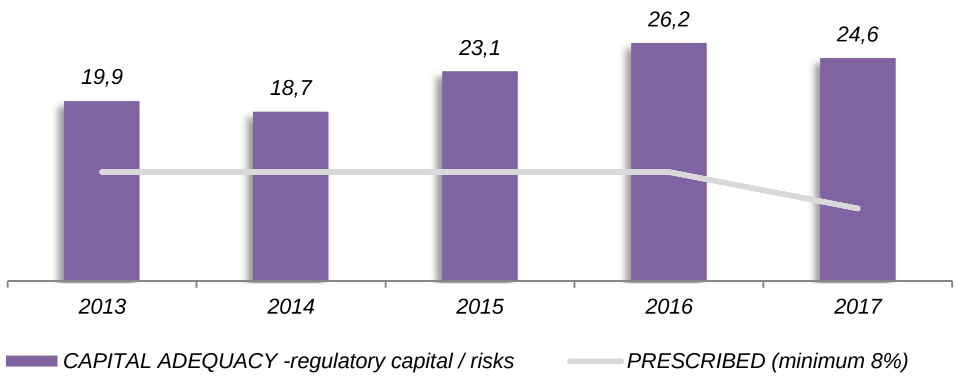
Country risk is the risk relating to the country of origin of an entity to whom the Group is exposed, i.e. the risk of possible occurrence of negative effects on the Group's financial result and capital due to the Group's inability to collect its receivables from debtors for reasons resulted from political, economic or social circumstances in the debtor's country of origin. The Group's exposure to country risk is at an acceptable level.

Regulatory Requirements for KB Group

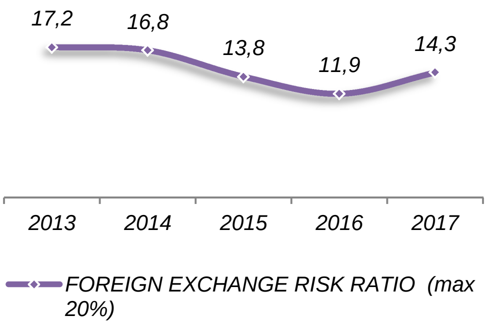
Under the Law on Banks: "The following shall be determined on a consolidated basis for a banking group:

- capital adequacy ratio,
- large exposure
- investment in other legal entities and fixed assets,
- net open foreign exchange position,
- liquidity Coverage Ratio (LCR), high-quality liquid assets or (HQLA) to cover short-term liquidity requirements and other".

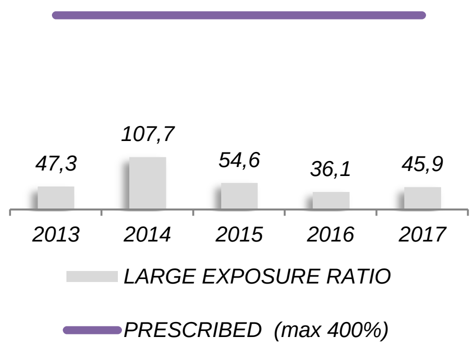
Group's Capital Adequacy



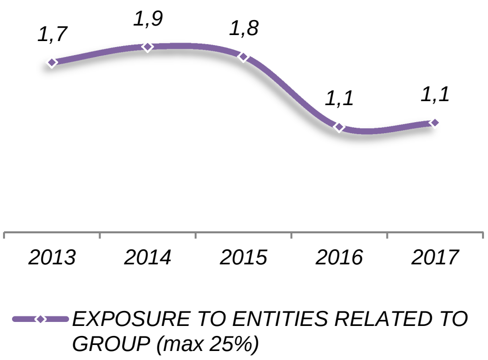
Group's Foreign Exchange Risk Ratio



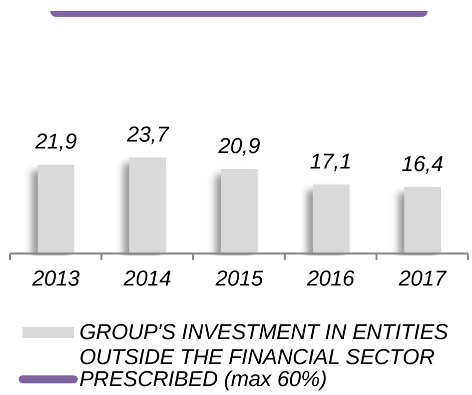
Group's Large Exposure Ratio



Group's Related Entities



Group's Investment



12. Corporate Social Responsibility of the Group

Komercijalna banka AD Beograd, the Parent Bank, is paying special attention to the activities pertaining to corporate social responsibility (CSR). This segment is of particular importance to us, because we are fully aware of its effects on customers' trust and corporate image. CSR activities have been carefully selected and the Group has actively collaborated with its partners in their implementation.

ZAJEDNO ZA BEBE

In 2017 Komercijalna banka Beograd continued its cooperation with the B92 Fund in the campaign "Together for Babies", which provides equipment to maternity wards in Serbia. Thanks to this campaign, over the last year the maternity wards in Jagodina and Priboj were fully equipped, and for the Health Centre in Vrnjačka Banja, in cooperation with the Women's Association „Milica", an ultra sound device has been purchased, which, apart from examination of women, can also be used for examination of the hips in children. The Bank also donated money for the reconstruction of the Saint Sava Temple in Belgrade, and on the occasion of the World Savings Day, which is celebrated on 31 October; traditional campaign was organized and savings passbooks were donated in RSD equivalent of EUR 50, to all the babies born on that day.

KOMBANK ARTHOL

CSR activities of the Parent Bank are coordinated with the subsidiary banks in Montenegro and in Republic of Srpska.

In 2017, Komercijalna banka AD Budva continued with many CSR activities it had been continually implementing for years. The Bank traditionally participates in implementation of the campaign „Savings Week" organized by the Central Bank of Montenegro, where the babies born in the Savings Week are given as a gift the savings passbook with the fixed-term savings amounting to EUR 400. In addition, in 2017 the Bank allocated the funds for renovation and adaptation of the neurological outpatient clinic of the Institute for Children Diseases of the Clinical Centre of Montenegro.

In 2017, Komercijalna banka AD Banja Luka also contributed to the activities pertaining to the corporate social responsibility. Funds were allocated for donations at the donors' evening „With Love to Brave

Hearts" sponsored by the President of the Republic of Srpska, for diagnosis and treatment of diseases, conditions and injuries of children abroad. The Bank helped organized the charity dinner „Dance for Spark" initiated by the Association of Parents of the Children with Malignant Diseases, as well as the humanitarian concert „Autism Speaks with Heart". Komercijalna banka AD Banja Luka has provided support to sports clubs in order to promote and bring the sport closer to the youngest population, as well as to individuals who achieve notable results at sports competitions.

Corporate Governance Rules

Corporate governance rules are based on the relevant legislation (Law on Banks and Law on Companies). The Corporate Governance Code sets out the principles of corporate practice, which must be adhered to by the proponents of corporate governance in their work. The aim of the Code is to introduce good business practices and establish high corporate governance standards, which should reinforce the trust of shareholders, investors, clients and other stakeholders. A good corporate governance practice essentially enables the consistency of the control system, protection of shareholders' interests, timely provision of all relevant information on operations and full transparency through the public access to the companies' financial statements.
Komercijalna banka ad Beograd, as the Parent Bank applies in its operations the Corporate Governance Code of the Serbian Chamber of Commerce and Industry adopted by the Assembly of the Serbian Chamber of Commerce and Industry, in accordance with the Decision on Implementation of the Corporate Governance Code of the Serbian Chamber of Commerce and Industry passed by the Bank's Executive Board in the month of April 2013.

Komercijalna banka AD Budva applies in its operations the Code of Business Ethics adopted by the Assembly of the Chamber of Economy of Montenegro (Official Gazette of the Republic of Montenegro No. 45/11 of 9 September 2011), which stipulates that its provisions are binding on all business entities registered in Montenegro.

Komercijalna banka AD Banja Luka applies in its operations the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska pursuant to Article 309 of the Law on Companies (Official Gazette of the Republic of Srpska nos. 127/98, 58/09, 100/11, 67/13 and 100/17) and Article 260 of the Law on Securities Market (Official Gazette of the Republic of Srpska nos. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

KomBank INVEST AD Beograd was organized in the form of a one-member joint-stock company that is not public with a two-tier management system. In order to ensure impartiality, transparency and accountability in corporate behaviour, the Company applies the Operating Rules approved by the Securities Commission in accordance with the Article 17 of the Law on Investment Funds (RS

Official Gazette, nos. 46/2006, 51/2009, 31/2011 and 115/2014), the Code of Conduct and Professional Ethics that are reconciled with the Parent Company, the Conflict of Interest Management Policy and personal transactions and other.

The competencies and authorities of all bodies of the Group's members are based on relevant legislation and defined by internal bylaws. Corporate Governance Rules are implemented through the internal bylaws and there are no deviations in the very application of the same.

Signed on behalf of Komercijalna banka AD Beograd

Miroslav Perić	КОМЕРЦИЈАЛНА БАНКА БЕОГРАД	Slađana Jelić
Member of the Executive Board		Deputy President of the Executive Board

KOMERCIJALNA BANKA
AD Beograd

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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 consolidated financial statements have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, including its companies included in the consolidated reports, based on the adopted audited separate financial statements of the Group members for the year 2017.

KOMERCIJALNA BANKA AD BEOGRAD

Miroslav Perić	dr Vladimir Medan
Member of the Executive Board	President of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

SUBSCRIBED CAPITAL: 13,881,010,000.00 RSD, 3,310,456,000.00 RSD; PAID-IN CAPITAL: 13,881,010,000.00 RSD as of 20.01.2010, 3,310,456,000.00 RSD as of 30.10.2012

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KOMERCIJALNA BANKA AD BEOGRAD
GENERAL MEETING OF BANK'S SHAREHOLDERS
Number: 6380/2
Belgrade, 26 April 2018

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd and in accordance with Articles 27 and 33 of the Law on Accounting, Article 61 of the Law on Banks and Article 50 of the Law on Capital Market, the General Meeting of Bank's Shareholders at its regular session held on 26 April 2018 passes the following

DECISION
TO ADOPT THE ANNUAL REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR 2017 WITH THE EXTERNAL AUDITOR'S OPINION

I

We hereby adopt the 2017 Annual Report of Komercijalna banka AD Beograd Group, with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd), the text of which is incorporated in this Decision by reference.

II

We hereby adopt the 2017 Consolidated Financial Statements of Komercijalna banka AD Beograd Group, with the report and opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd):
1. Balance Sheet – consolidated as at 31 December 2017;
2. Income Statement – consolidated for the period from 1 January to 31 December 2017;
3. Statement of Other Comprehensive Income – consolidated for the period from 1 January to 31 December 2017;
4. Statement of Changes in Equity – consolidated for the period from 1 January to 31 December 2017;
5. Cash Flow Statement – consolidated for the period from 1 January to 31 December 2017 and
6. Notes to 2017 Consolidated Financial Statements

the text of which is incorporated in this Decision by reference.

III

This Decision shall come into force on the day of its adoption.

CHAIRPERSON OF
GENERAL MEETING OF BANK'S SHAREHOLDERS

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Marijana Marković