ANNUAL REPORT ON OPERATIONS FOR THE YEAR 2015

April 06th, 2016

C O N T E N T

1. BANK'S KEY PERFORMANCE INDICATORS

INCOME STATEMENT (in RSD thousand)	2015	2014	Index 15/14	2013	2012	2011
INCOME STATEMENT						
Gain /loss before tax	(6.414.158)	4,757,589		4,588,375	4,572,662	3,952,066
Net interest income	13,529,809	13,298,586	101.7	12,929,237	10,910,317	9,853,368
Net fee income	4,899,947	4,717,757	103.9	4,565,148	4,554,466	4,423,399
Operating expenses	10,799,510	10,745,910	100.5	10,161,794	9,812,888	8,995,578
Net expenses from indirect write-offs of loans and provisions	13,008,526	2,725,389	477.3	3,220,075	1,444,299	1,335,461

BALANCE SHEET (in RSD thousand)	2015	2014	Index 15/14	2013	2012	2011
BALANCE SHEET						
Balance Sheet Assets	391,856,849	406,261,524	96.5	362,786,319	323,384,909	275,488,718
RETAIL						
Loans	70,784,957	69,039,387	102.5	61,848,487	55,917,000	48,555,491
Deposits	218,836,847	207,430,548	105.5	186,766,804	164,532,866	143,061,647
CORPORATE						
Loans	89,204,275	112,768,251	79.1	112,261,312	118,860,421	98,486,288
Deposits	55,503,896	57,437,462	96.6	42,131,535	40,526,379	31,728,178
Securities	128,024,439	95,654,325	33.8	57,001,465	41,347,719	25,637,972

INDICATORS	2015	2014	Index 15/14	2013	2012	2011
LOANS/DEPOSITS RATIO						
Gross loans /deposits	67.4%	72.4%		77.8%	80.2%	80.7%
Net loans /deposits	57.2%	66.3%		72.0%	75.2%	75.5%
CAPITAL (000 RSD)	61,456,734	69,546,804	88.4	64,962,218	59,866,560	44,275,566
Capital adequacy	22.70%	17.70%		19.00%	21.90%	17.30%
Number of employees	2,877	2,906	99.0	2,966	2,989	3,022
PROFITABILITY PARAMETERS						
ROA	(1,62%)	1.25%		1.33%	1.51%	1.53%
ROE – share capital	(16,02%)	11.88%		11.46%	15.05%	13.89%
ROE – total capital	(9,35%)	7.05%		7.33%	9.44%	9.21%
Net interest margin on total assets	3.4%	3.5%		3.7%	3.6%	3.8%
Cost / income ratio	58.6%	59.6%		58.0%	63.5%	63.0%

The result of the Bank in 2015, in addition to still unfavourable business environment, was decisively influenced by implementation of the Asset Quality Review (AQR) and the beginning of the privatization process.

The National Bank of Serbia (NBS) conducted in second half of 2015, the AQR process with 14 most influential banks in the Republic of Serbia, which account for 88% of balance sheet assets. The objective of AQR was „The verification of the quality of bank's assets under the International Financial Reporting Standards (IFRS) and international real estate valuation standards, while taking into account national regulations and specifics of Serbian market, as well as methodological assumptions specifically designed for the needs of AQR. AQR allowed the NBS to verify whether banks are adequately capitalized, taking into account adjustments of asset classification and provisions for identified losses in accordance with IFRS, as well as the levels of regulatory reserves for potential losses“. (NBS communication as of December 18th, 2015)

The results of AQR as of March 31st, 2015 at the level of the banking sector, with all the limitations of static and more conservative approach are as follows:

- Decrease of capital adequacy of 1,76 percentage points, which still does not threaten the high capitalization level of the sector (18,45% after adjustments), primarily due to high level of required reserve for estimated losses.
- Increase in share of NPLs by 4,7 percentage points to 27,4%.
- The biggest effect on Income Statement (so called IFRS impairment) have the „gone-concern“ clients, or those NPL clients where the collection is expected from collaterals, whereby the key factor is a collateral valuation (EUR 229 million), whose effect on capital is mitigated by the reduction in required reserve.

After the conducted AQR, the Banks are not obliged to fully implement the AQR findings, but to carefully consider the overall results and the correction of impairment provisioning for individual customers in order to properly define, in cooperation with their statutory auditors, the implications for their financial statements for 2015. Significant increase in impairment provisions is expected at the level of the banking sector for 2015, without compromising the capital adequacy.

In addition to effects of AQR, mainly through reduced value of collaterals, the Bank's result was additionally influenced by the beginning of the privatization process, in relation to which the strategy of shareholders and the management is oriented to pre-privatization „cleansing“, primarily through increased coverage of NPL to over 70%, in order to facilitate the management (purchase /sale).

Consequently, total impairment provisions for 2015 amount to RSD 13.009 million what we consider one-time increase above the normal level and this reflects significantly more conservative approach to impairment, primarily with respect to NPL clients, as well as change of the strategy in managing them. All this resulted in loss before taxation of RSD 6.414 million. But, the lack of profit in 2015 does not in any way threaten, nor will it threaten the stability and the earning capacity of the Bank in the upcoming period:

- Capital adequacy is well above the required level and equals 22,7%.
- Net operating income and operating expenses are in compliance with the plan.
- Coverage of NPL by impairment provisioning for non-performing loans totals 72,1%, with RSD 7.186 million established over the required reserves calculated in accordance with the regulations of the National Bank of Serbia (Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items of Banks), which will be used for covering the loss without adverse effects on capital adequacy.
- The Bank complies with all the ratios prescribed by the Law on Banks, and in 2015 it successfully settled at all times, all of its obligations.

Performance indicators	Prescribed	2014	Mar-15	Jun-15	Sep. 2015.	Dec. 2015
Capital adequacy	min. 12%	17.7%	17.4%	20.8%	21.2%	22.7%
Bank's investments	max. 60%	27.6%	29.1%	24.7%	24.4%	23.1%
Exposure to parties related to Bank	max. 25%	2.2%	2.3%	2.0%	2.0%	2.0%
Sum of Bank's large exposures	max. 400%	160.6%	143.4%	125.8%	114.4%	79.8%
Monthly liquidity ratio	min. 0,8	2.8	3.5	3.2	3.5	2.7
Foreign exchange risk indicator	max. 20%	2.9%	6.5%	6.2%	9.2%	10.6%

In the coming period the Bank's focus shall remain on:

- Maintaining the stability of business operations and reputation of the Bank,
- Raising the value of the Bank before privatization and
- Sustainable business growth and profitability

Financial objectives of the Bank	2015 achieved	2016 plan	2017 plan	2018 plan
Asset growth	(3,5)	1.2	3.2	4.7
Gain/Loss (RSD mn)	(6.414)	5,156	6,690	8,848
ROA	(1,6)	1.3	1.7	2.1
ROE - total capital	(9,4)	8.1	9.9	12.2
ROE - share capital	(16,0)	12.9	16.7	22.1
Interest margin (net interest income / total assets)	3.4	3.4	3.5	3.8
Breakeven margin	5.0	2.1	1.8	1.6
CIR	58.6	56.4	53.8	47.9
NPL	21.2	21.6	20.9	21.7
IP / average net loans	7.3	2.3	2.1	1.9

2. *MACROECONOMIC BUSINESS CONDITIONS*

In the previous year the market was marked by low energy prices and prices of raw materials, which made a positive contribution to economic growth at the global level. Bearing this in mind and weak economic activity, the inflation did not increase excessively and thus the policy of central banks was generally relaxing. SAD (FED) raised the key policy rate at the end of the year (0,25-0,50). Main macroeconomic risks in last year referred to slowdown of economic growth in China, high volatility of currencies with the strengthening of dollar as a result of recovery of the US economy and geopolitical tensions especially in the Middle East and in Russia.

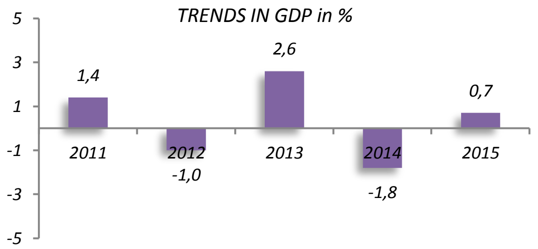
International Monetary Fund (IMF) has for the third time revised the estimate of global economic growth downwards to 3,1%[1] in 2015 (0,2 percentage points lower than the July estimate), as a result of the reduction in the forecast of growth in developing countries, which in the highest percentage contribute to the global growth. Low oil prices will continue to affect the exporters of energy generating products.

The Serbian economy has emerged from recession, achieving the growth of around 0,7%. The second half of 2015 is a period of more intensive enhancement, growth of economic activity along with the reduction of fiscal and external deficit. Inflation rate was throughout the year low and ranged below the target corridor. The Serbian economy is intensively oriented to the countries of the Eurozone, so the speed of recovery of Serbia, in 2016, as well, will be influenced by the recovery of the Eurozone countries, particularly Germany and Italy. Undertaken measures such as reduction of wages and pensions and more effective collection of taxes resulted in a reduction of the fiscal deficit, while the planned staff reductions in public sector, in 2015, were not fully implemented. In such circumstances the special importance is now given to three-year agreement with the International Monetary Fund, whose fourth revision is planned for after the completion of the electoral process.

During 2015, as well, just like in 2014, a set of laws was amended (The Company Law, Law on Privatization, Law on Banks and other) in order to improve the investment climate and to attract the investors.

GDP Trends

For the entire business year the GDP growth rate was 0,7%[2]. The key factors that led to GDP growth are the growth in exports and strong investment activity in the construction industry. The positive impact came certainly from drop in oil prices on the world market, lower borrowing costs in the international market and stable inflow of remittances from abroad. The external contributions to GDP growth were strongly supported by internal factors of which in particular stands out the reform of the business environment, in order to create conditions for a safe investment, which partially mitigated the negative impact of fiscal consolidation on a reduction of final consumption.



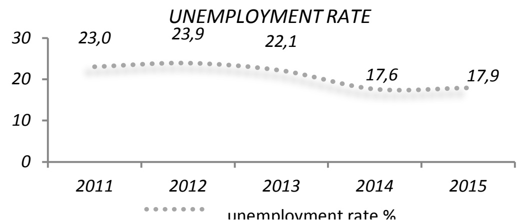
Employment

The labour market is showing signs of recovery. According to data of the National Employment

1 Source: IMF, World Economic Outlook, October 2015

2 Source: Ministry of Finance of the Republic of Serbia

Service in Q4 of 2015 the unemployment rate is 17,9% and compared to the same period in previous year it remained unaltered; however the adjusted data on labour market trends for 2014-2015 are more reliable than previous data, because they are largely in line with related macro-economic, fiscal and administrative data. The employment growth has been recorded in the industrial sector, while a decrease was recorded in agriculture and services. Slight improvement in the labour market is the result of labour market reforms and a modest increase in economic activity, while the change in the structure of employment is primarily the result of improvement in legislation and greater activity of inspection services, thus creating the preconditions for a substantial reduction of work in the „grey zone", that is to fight against „grey" economy.



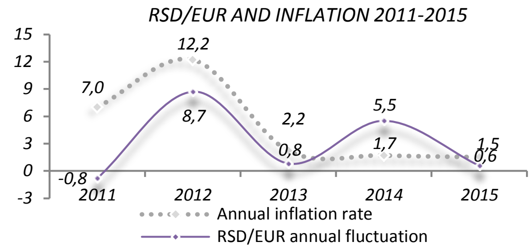
Source: Republic Statistical Office

Liquidity

According to data of NBS at the end of September 2015, 55.200 enterprises have blocked accounts, therefore every sixth enterprise and entrepreneur are able to make payments. The amount of blockage is approximately RSD 250 billion or EUR 2 billion, and/or around 6.8% of GDP.

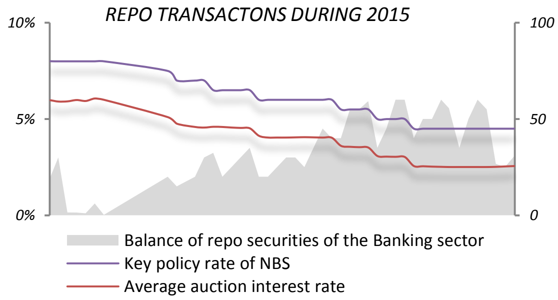
Inflation

In the course of last two years the inflation was constantly below the lower target corridor of NBS 4,0%±1,5% and by current indicators it will remain below that level in the coming period. The inflation was above the target framework only during two months that followed after the lower VAT rate was increased from 8% to 10%.
At the end of 2015 y-o-y inflation stands at 1,5%. The inflation level in 2015 was impacted by the following factors: low oil prices and low prices of primary agricultural products, low demand and slow growth in regulated prices.



Repo rate

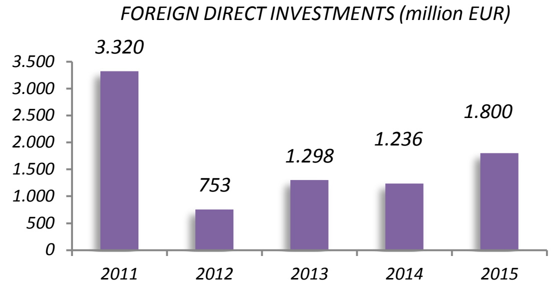
Overall macroeconomic movements enabled the National Bank of Serbia to continue with a slight relaxation of monetary policy by further lowering the key policy rate. Additionally, NBS supported the relaxation of monetary policy through gradual reduction of foreign currency reserve requirement rate, that started in early September, and which will take place in the next six months.
After abolition of reverse and introduction of direct repo transactions in mid-2012, it is again allowed to invest the liquid assets of banks in treasury bills, but by applying auctions and multiple interest rates, which resulted in separation of auction (lower) and reference (higher) interest rate. During 2015 the volume of repo transactions changed from the initial RSD 20 billion to the level of RSD 30,6 billion at the end of the year.



Foreign Direct Investments

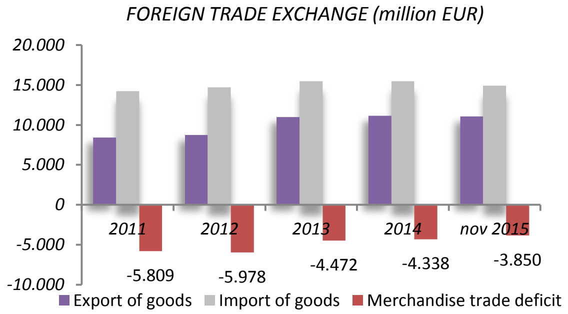
At the end of 2015 the Foreign Direct Investments reached the amount of EUR 1,8 billion[3] which is by EUR 564 million more than in previous year.

[3] Ministry of Finance of the Republic of Serbia



Foreign Trade Exchange

Total foreign trade exchange of the Republic of Serbia, by the end of 2015, reached the amount of EUR 26,7 billion[4], which makes for the growth of 5,1% compared to the previous year. Export of goods reached the value of EUR 11,3 billion, which is an increase of 6,6% when compared to the level achieved in previous year. The import of goods amounted to EUR 15,4 billion and also records the growth of 4%.



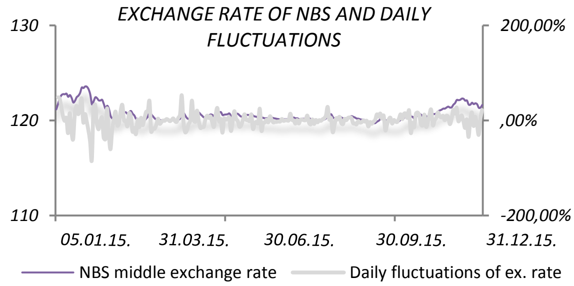
The company Fiat automobili Srbija d.o.o., Kragujevac (FAS), is the leading exporter in 2015, as well, with the volume of exports of EUR 1.178,8 million (by the end of December 2015); it is followed by Železara Smederevo d.o.o., Smederevo, Tigar tyres d.o.o., Pirot and NIS a.d., Novi Sad. Broken down by regions and countries, the EU countries accounted for 66,0% of total export, while import from these countries accounts for 62,6% of total import. The main foreign trade partners from EU are Italy and Germany to which 29% of total export is intended, and the import from the above countries accounts for 23% of total import.

Exchange rate EUR/RSD

At the end of 2015, the exchange rate EUR/RSD (121,6) is by 0,55% higher than the exchange rate applicable at the end of 2014. During 2015, Dinar exchange rate ranged between RSD 120,1 and RSD 121,6 to EUR (except in January when it stood at RSD 123,5 for one EUR). Dinar exchange rate fluctuations against foreign currencies were impacted by: fluctuations at international level, primarily movements in oil prices and agricultural products, as well as the fall in interest rates, the continuation of significant inflow of foreign direct investments and inflow of foreign currency funds in the form of remittances from abroad, on one hand and continuation of fiscal consolidation, on the other hand.

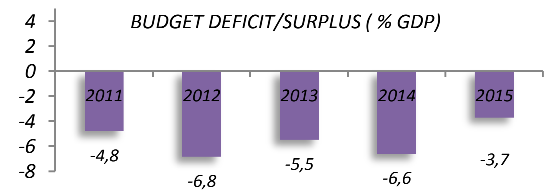
The depreciation of dinar in 2015 had a positive impact on the competitiveness of the domestic economy. The National Bank of Serbia intervened in the foreign exchange market through net purchase and thus prevented the appreciation of dinar, but it also timely sold the foreign currencies, thereby preventing excessive short-term fluctuations of dinar, while the volume of its net purchase amounts to EUR 540 million in 2015.

Foreign currency reserves of NBS at the end of the year amount to EUR 10,38 billion and are increased relative to the beginning of the year by 4,75%; they provide coverage of import of goods and services for a period of about seven months.



Budget deficit

At the overall government level a deficit is recorded in the amount of RSD 148,6 billion, or 3,7% of GDP.



Source: National Bank of Serbia

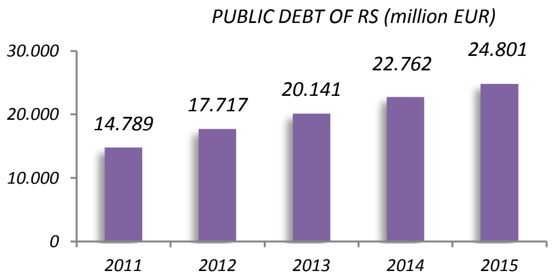
Better realization of revenues is the result of an unplanned inflow of one-off non-tax revenue (dividends and profit of public companies), but also more efficient collection of tax revenue (VAT,

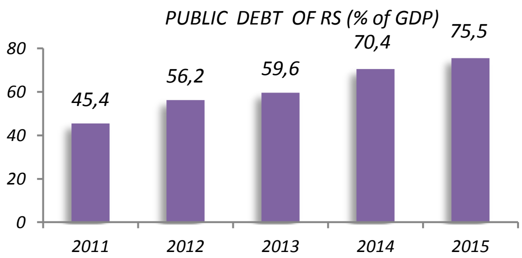
[4] ditto

excise taxes on tobacco products and oil derivatives). On the expenditure side, the reduction of budget deficit was mainly influenced by smaller capital expenditures, lower interest rates and also reduction in wages and pensions.

Public debt

Public debt of the Republic of Serbia at the end of 2015 amounted to EUR 24,8 billion, which accounts for 75,5% of GDP despite the legal limit of 45% of GDP (Budget System Law)[5], partly due to strengthening of USD. Compared to the end of 2014, the public debt has been increased by EUR 2,0 billion, or 5,1 percentage points.





Foreign debt

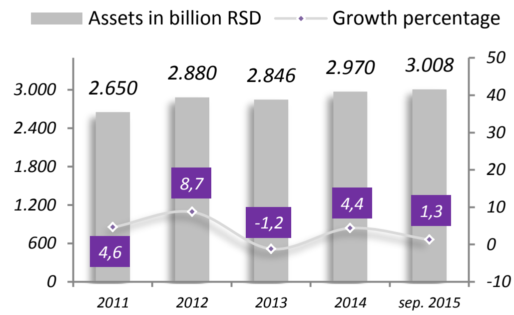
According to data provided by NBS, at the end of 2015 the foreign debt amounted to EUR 26,5 billion and compared to balance as at the end of 2014, it has been increased by EUR 772 million. Foreign debt accounts for over 80,3% of GDP. Private debt was decreased in 2015, while the public debt increased, primarily due to strengthening of dollar. The external solvency indicator that is calculated as the ratio between the amount of foreign debt and the value of export of goods and services is slightly improved in 2015; at the end of the year it equalled 169,8%, (at the beginning of the year it stood at 178,1%).

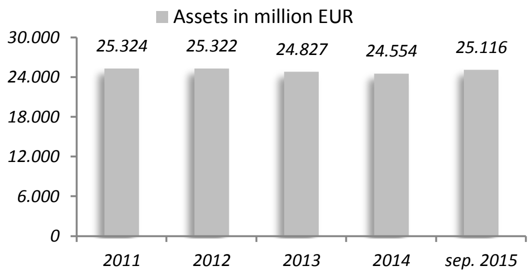
3. *BANKING SECTOR OF THE REPUBLIC OF SERBIA AND FINANCIAL POSITION OF KB VERSUS SECTOR*

3.1. Banking sector

The effects of AQR on operations and profitability of the banking sector will be known after the release of results for the end of 2015. At the end of September 2015 the Serbian banking sector consists of 30 banks, with assets of RSD 3.007,6 billion, total capital of RSD 643,3 billion and 24.387 employees; the ten largest banks by assets in total assets of the sector account for 76,7%.

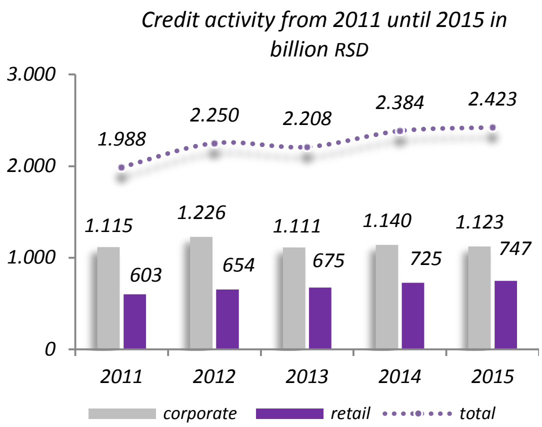
In the first nine months of 2015 the balance sheet assets of the banking sector increased by 1,3%.





In the conditions marked with reduction in interest rates, the growth of total loans was realized at the end of the year, whereby retail loans recorded a growth, while corporate loans declined compared to 2014. The liquidity of sector is still high and so the surplus is invested in government securities and reverse repo transactions of NBS. At the end of 2015 the balance of bank placements under repo transactions with NBS amounted to RSD 30,6 billion. The share of securities was 17,4% of the assets of the sector, while the share of cash was 16,2% (as of September 30th 2015).

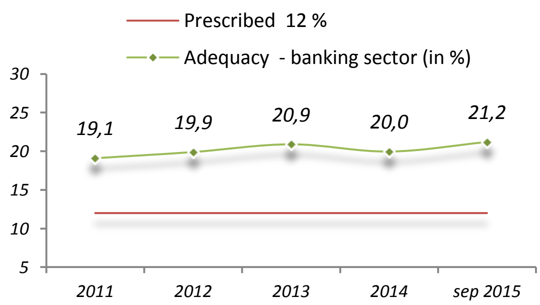
[5] Ministry of Finance of the Republic of Serbia



Share of *NPL* (loans defaulting over 90 days) in total gross loans, at the end of Q3 2015, reaches the level of 22,0% (end of December 2014 it stood at 21,5%). Analysed by sectors, most of NPLs relate to corporate loans. Total loans impairment provisioning covers 60,8% of gross NPLs, while coverage by calculated reserves for estimated losses stands at 115,0% at the end of September[6]. Number of corporate clients, particularly large ones, which from liquidity problems fall into insolvency remains high; this trend is accompanied with largely present practice of solving the problems through pre-packaged plan of reorganization.

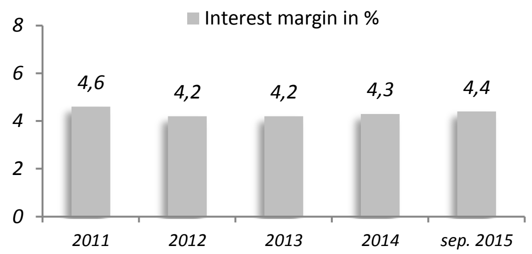
Retail foreign currency savings remain stable at the end of 2015 and reach the amount of EUR 8,3 billion[7]m with still high level of insured deposits.

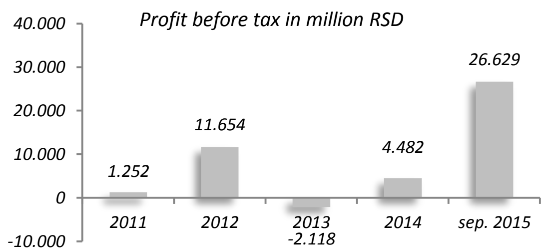
Capital adequacy, as of September 30th, 2015 stands at 21,2%, which is well above the prescribed statutory minimum of 12%. As of September 2015, total capital of the banking sector amounted to EUR 5,4 billion[8].



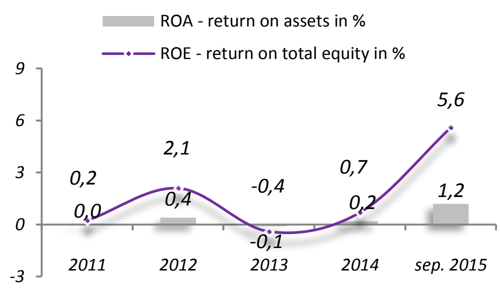
In 2015, same as in 2014 the outflow continues, or deleveraging of banks, but at much slower pace than in previous years. By the end of September 2015, the outflow was recorded amounting to EUR 142,4 million.

In the first nine months of 2015 the banks recorded a growth of *profitability*, despite the fact that 11 banks operated with a loss (of which nearly 90% relates to 5 banks). In spite of achieved profit growth, the costs of impairment provisions did not significantly increase compared to the same period last year (in 2014 – RSD 27,9 billion, in 2015 - RSD 28,6 billion), although the effects of AQR are expected in banks' balance sheets at the year end.

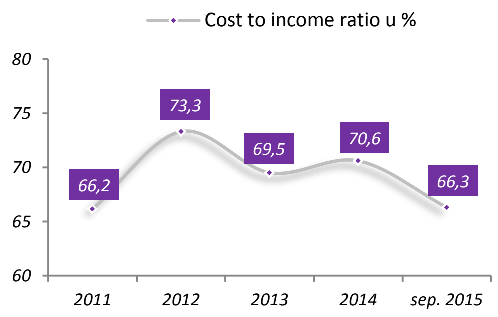




Note: the result before tax in 2011 includes the loss of Agrobanka of EUR 284 million, the result at the end of 2012 includes the loss of Razvojna banka Vojvodine of EUR 128 million, while the result at the end of 2013 includes the loss of Univerzal banka of EUR 13 million.



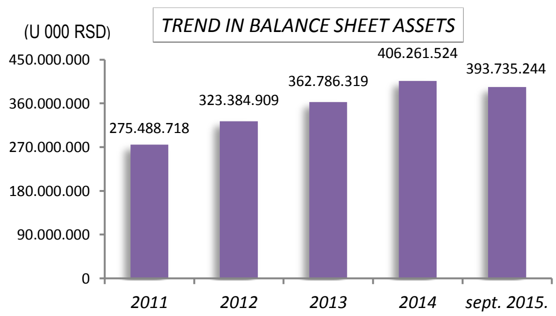
[6] ditto
[7] ditto
[8] ditto

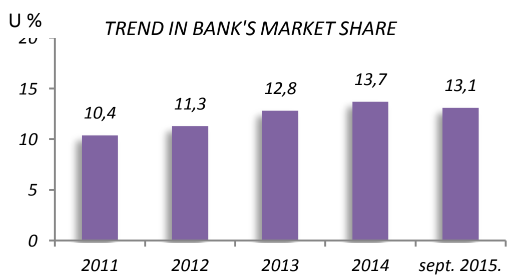


Cost-to-Income ratio continues the downward trend, following the increase in 2014, and it reaches the value of 66,3%.

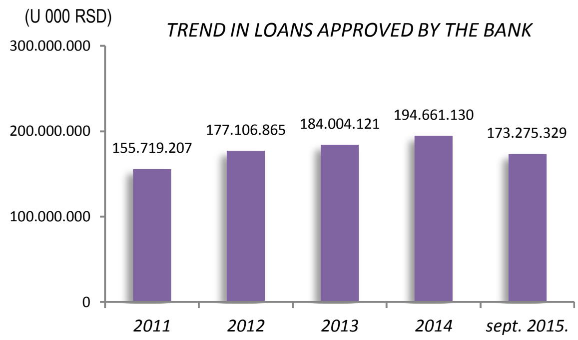
3.2. Financial position of KB versus sector

As of September 30th, 2015 the Bank with the balance sheet assets amounting to RSD 393.735 million accounted for 13,1% of the banking market and ranked second. Compared to the end of 2014 (13,7%) the Bank recorded a drop of 0,6 percentage points in market share.

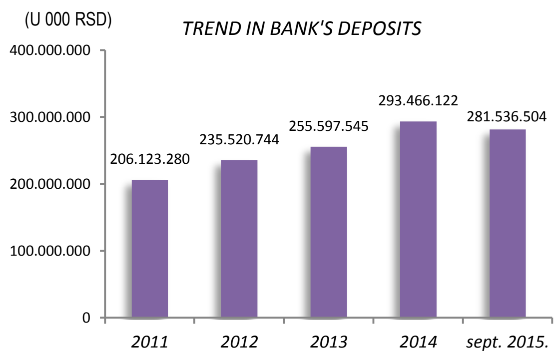




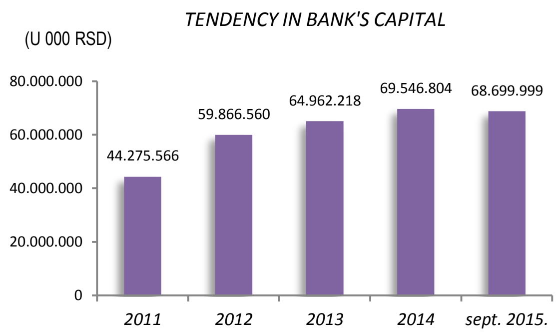
Loans approved to customers and Bank's receivables as of September 30th, 2015 amount to RSD 195.790 million, or 10,4% of market share, thus representing a decline compared to the end of 2014 when the Bank's share was 11,6% (RSD 220.114 million).



The position deposits from customers also recorded a slight drop over the period from the end of 2014 until September 30th, 2015. Share of Bank's deposits in total deposits of the banking sector stood at 14,6% in 2014, while as of September 30th, 2015 it equalled 13,8% of total deposits of the banking sector.



In the reporting period the Bank reduced a share in the sector in terms of its capital position, from 11,3% (RSD 69.547 million at the end of 2014) to 10,7% of the banking market as of September 30th, 2015 (RSD 68.700 million).



4. BANK'S BODIES AND ORGANIZATIONAL STRUCTURE

4.1. Bank's Board of Directors

Bank's Board of Directors has been established in compliance with the Law on Banks and Shareholders Agreement – Republic of Serbia and the group of international financial institutions (EBRD, IFC, DEG, SwedFund); it comprises nine members, including the Chairperson, three of whom are the persons independent of the Bank. The members of the Bank's Board of Directors are appointed by the General Meeting of Bank's Shareholders for a term of four years.

Competences of the Bank's Board of Directors are defined by the Article 73 of the Law on Banks and by the Article 27 of the Bank's Articles of Association. The members of the Bank's Board of Directors as of December 31st, 2015 are as follows:

FIRST NAME/ LAST NAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	POSITION
Mirjana Ćojbašić	Republic of Serbia	Chairperson
Milena Kovačević	Republic of Serbia	Member
Jelena Rančić	Republic of Serbia	Member
Andreas Klingen	EBRD	Member
Philippe Delpal	EBRD	Member
Khosrow Zamani	IFC	Member
Olivera Matić Brbora	Member independent of the Bank	Member
Mila Korugić Milošević	Member independent of the Bank	Member
Mats Kjaer	Member independent of the Bank	Member

4.2. Bank's Executive Board

The Executive Board consists of the President of the Executive Board, Deputy President of the Executive Board and at least three members.

The term of office of the members of the Bank's Executive Board, including the President and the Deputy President is four years starting from the date of appointment.

Competences of the Executive Board are defined by the Article 76 of the Law on Banks and by the Article 31 of the Bank's Articles of Association.

The members of the Bank's Executive Board as of December 31st, 2015 are as follows:

FIRST AND LAST NAME	POSITION
Alexander Picker	President (as of 17.12.2015)
Dragan Santovac	Deputy President
Slavica Đorđević	Member
Andrijana Milanović	Member
Lidija Sklopić	Member

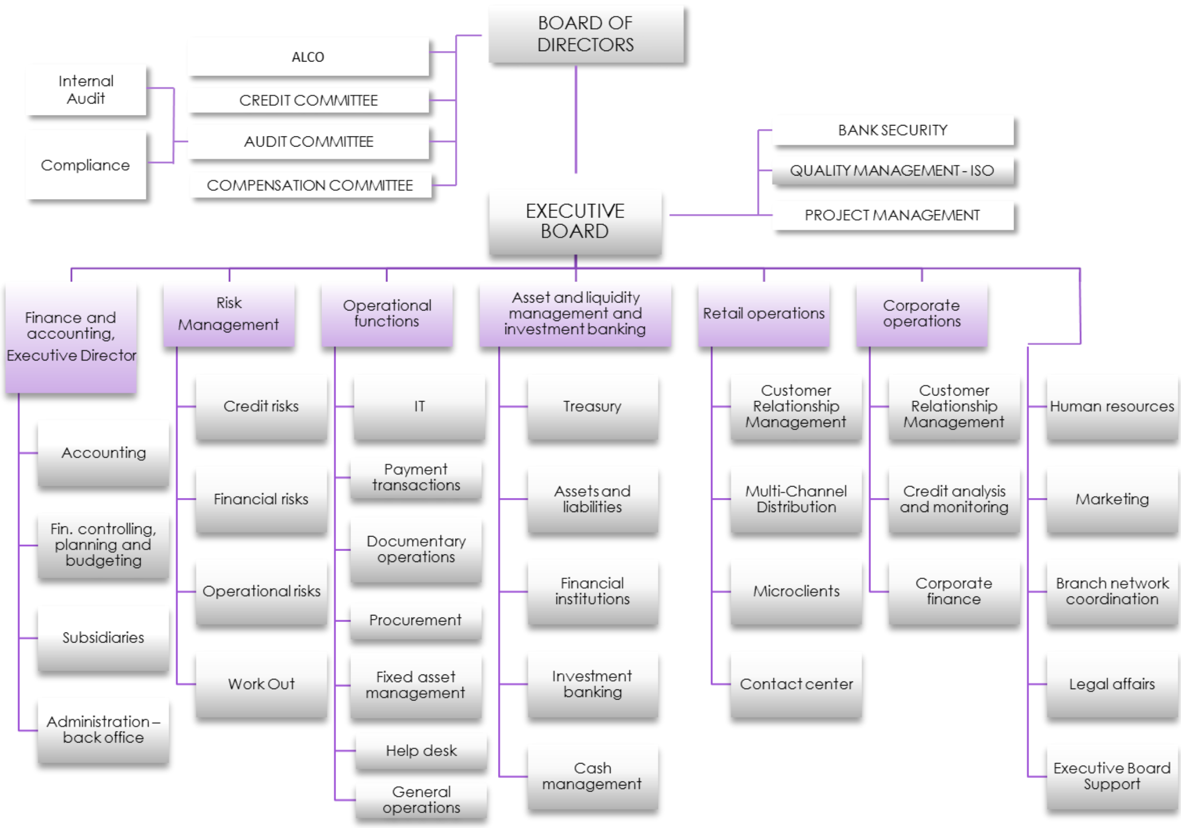
4.3. Committee for Supervision of Bank's Operations (Audit Committee)

The Committee for Supervision of Bank's Operations consists of three members, two of whom are the members of the Bank's Board of Directors who have appropriate experience in the field of finance. One member of the Committee for Supervision of Operations is the person independent of the Bank. The members of the Committee are appointed for a term of four years. The duties of the Committee for Supervision of Operations are defined by Article 80 of the Law on Banks and by Article 34 of the Bank's Articles of Association.

The members of the Committee for Supervision of Operations as of December 31st, 2015 are as follows:

FIRST AND LAST NAME	POSITION
Mats Kjaer	Chairman
Andreas Klingen	Member
Milena Kovačević	Member

4.4. Organization Chart



4.5. Regional Distribution of the Bank's Branches in the Republic of Serbia

The Bank performs its operations through a network of branches and sub-branches whose number is changing and adapting to market requirements. At the end of 2015, the business network of the Bank included 24 branches and 209 sub-branches, which enabled the Bank to fully cover the territory of the Republic of Serbia. In 2015, 11 sub-branches were shut down, whereas the number of branches remained unaltered.

BRANCHES

Niš -Episkopska 32
Kruševac-Trg Fontana 1
Kraljevo-Trg S. Ratnika bb
Novi Pazar -Njegoševa 1
Novi Sad-Novosadskog sajma 2
Užice-Petra Ćelovića 4
Zrenjanin-Trg Slobode 5
Čačak-Gradsko šetalište 10-14
Vranje -K. Stefana Prvovenčanog 58
Valjevo -Gradski Trg bb
Subotica-Korzo 10
Šabac-Gospodar Jevremova 2
Kragujevac-Save Kovačevića 1
Smederevo-Karađorđeva 37
Požarevac- Moše Pijade 2
Jagodina- Knjeginje Milice 10
Loznica- Gimnazijska 1
S. Mitrovica- Kralja Petra I 5-7
Zaječar-Nikole Pašića 25
Kikinda -Braće Tatić 7
Sombor-Staparski put 14
Vršac-Trg Sv. Teodora vršačkog 2
Beograd-Svetogorska 42-44
K. Mitrovica -Kneza Miloša 27

4.6 Bank's Subsidiaries

The Bank has three subsidiaries, which together form Komercijalna banka a.d., Beograd Group, as follows:

1. Komercijalna banka a.d., Budva in the Republic of Montenegro (100% ownership),
2. Komercijalna banka a.d., Banja Luka in Bosnia and Herzegovina (99,998% ownership) and
3. KomBank INVEST a.d., Beograd, the Investment Fund Management Company (100% ownership).

Komercijalna banka ad Banja Luka
-147 employees,
-17 organizational units and head office
(8 branches and 9 agencies)

Komercijalna banka ad Budva
-120 employees,
-16 organizational units
(6 branches and 10 sub-branches)

4.7. Major Transactions with Related Parties

Total exposure to entities related to the Bank, as at December 31st, 2015 amounted to RSD 772,2 million, which in terms of capital of RSD 38.432 million accounted for 2,01% (as prescribed by the Law on Banks the maximum value of total loans and advances to all entities related to the Bank may equal 20% of capital).
The major part of the exposure to entities related to the Bank, as at December 31st, 2015, amounting to RSD 588,5 million, or 1,53% of Bank's capital, refers to loans and advances to retail customers who are the persons related to the Bank.

Pursuant to the Article 37 of the Law on Banks and with respect to entities related to the Bank, the Bank did not approve loans to such entities under the conditions that are more favourable than the conditions under which the loans were approved to other entities that are not related to the Bank, and/or are not the employees of the Bank. A more detailed account of the relationship of the Bank with the related parties is presented in Item 40 of the Notes to the Financial Statements.

5. OPERATIONS OF KOMERCIJALNA BANKA IN 2015

5.1. Introduction

The Bank's operations in 2015 were crucially influenced by AQR, the beginning of privatization and personal changes in Bank's management bodies, all of which together resulted in a considerably worse result. One-time increase in impairment provisions led to a negative financial result, but also to increase in coverage of NPL of above 70%, which in the upcoming period will contribute to a more flexible and more efficient NPL portfolio management. The loss recorded in 2015 did not affect the security, stability and liquidity of the Bank. In addition, stable interest margin, net interest and fee income and CIR have been achieved. Allocation of major part of realized profit to Bank's reserves leaves the Bank a possibility to cover the entire loss reported in 2015 without reducing the share capital.

Balance Sheet Total

Balance Sheet Total (net assets) reached the amount of RSD 391.857 million (EUR 3,2 billion) and represents a decrease of 3,5% compared to previous year. The focus is still on sustainable business operations, through balancing between profitability and portfolio quality, further optimization of asset structure, finding new sources of funding and faster employment of funds.

Sources

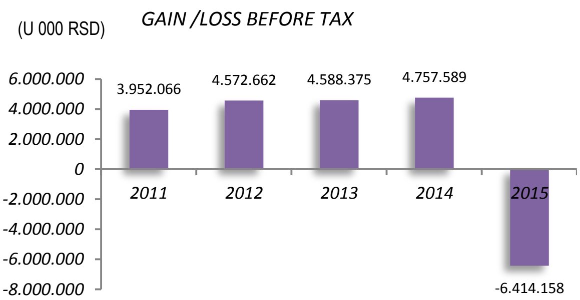
In 2015 the growth of retail foreign currency savings continued, reaching the amount of approximately EUR 48 million, whereas corporate deposits and deposits of other financial organizations recorded a drop compared to the end of 2014 by RSD 15,4 billion.
In the course of 2015, the Bank repaid EUR 44,4 million to foreign creditors, and it drew down EUR 10,7 million. The balance of Bank's liabilities under the above drawdown amounts to EUR 206,7 million at the end of 2015.
Subordinated liabilities at the end of the reported year amount to RSD 6.078 million.

Loans and Advances

Complex business conditions in 2015, with reduced liquidity of companies, are all the reasons that the Bank recorded a decline in corporate loans (in the amount of RSD 23,6 billion, or 20,9%) as a result of reduced demand by quality clients, early repayments, as well as significant loan impairment, accompanied with the stagnation of retail portfolio (cash loans still prevail). Large part of Bank's liquid assets is invested in dinar and foreign currency securities. At the end of the reported year, the amount of RSD 127.174 million has been invested in securities available for sale, which makes for an increase of RSD 31.692 million compared to the same period in 2014 (increase of 33,2%).

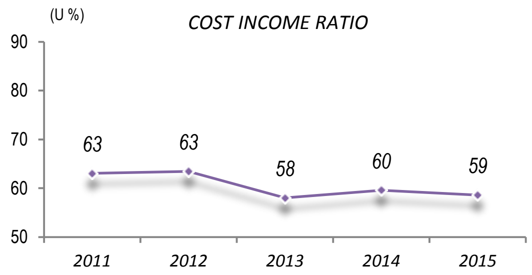
Profitability

The result in 2015 was decisively impacted by the amount of impairment provisions (RSD 13.009 million); interest margin and operating expenses are stable and in compliance with the plan.

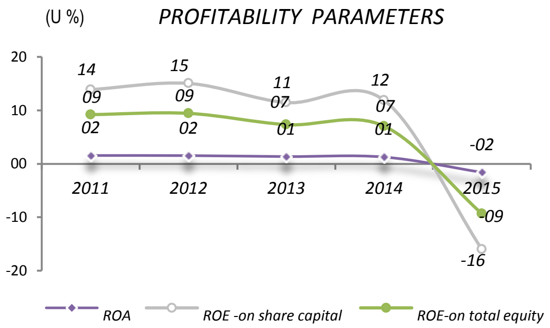


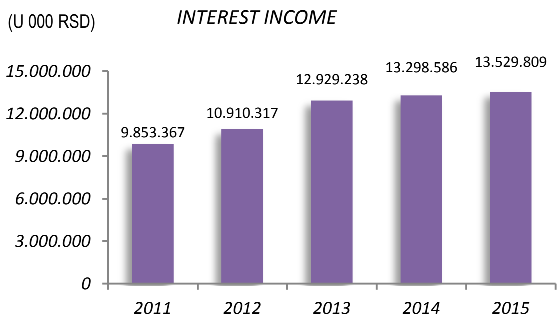
In 2015 the Bank, on one hand, recorded an increase in net interest and fee income accompanied with a decline in CIR, while, on the other hand, it realized one-time increase in provisions for impairment of loans, which at the end resulted in loss before taxation in the amount of RSD 6.414 million.

The amount of loss is lower than the amount of allocated reserves from profit for estimated losses, which is higher than the total required reserves calculated by the regulations of the National Bank of Serbia (the Bank formed more reserves than required in the amount of RSD 7.186 million).

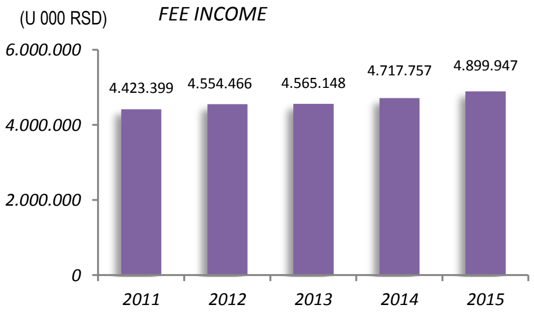


Cost Income Ratio is within the planned value for 2015.

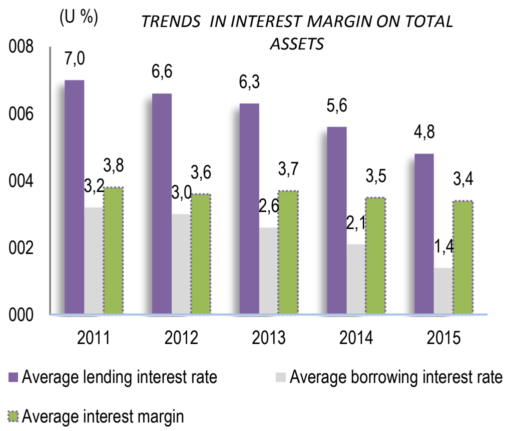




Interest income in 2015 records a growth of 1,7% in comparison to the end of 2014; at the same time fee income records a growth of 3,9%.



By further optimization of the price and the structure of sources the interest margin has been achieved in line with the plan, despite the constant and major decline in lending interest rates during 2015.



Bank's Capital

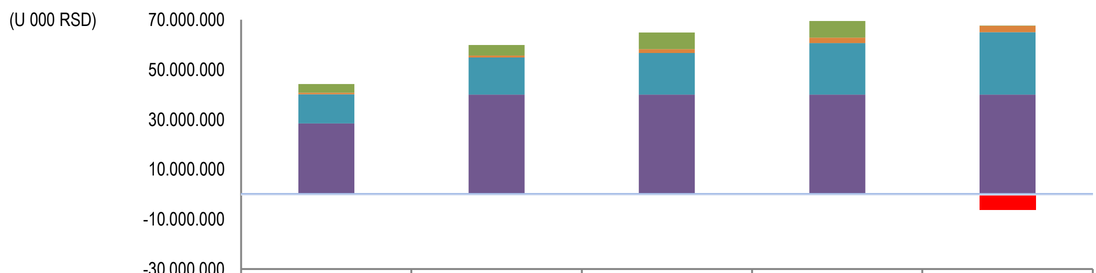
Changes in capital over the period from 2011 until 2015:

ITEM	2015	2014	2013	2012	2011
BANK'S CAPITAL (IN 000 RSD)					
Share capital	40.034.550	40.034.550	40.034.550	40.034.550	28.462.553
Reserves from profit	24.935.440	20.635.440	16.635.440	14.785.440	11.635.440
Revaluation reserves	2.606.824	2.120.959	1.604.257	860.758	625.680
Retained earnings	179.550	6.755.855	6.687.971	4.185.812	3.551.893
Loss	6.299.631	-	-	-	-
TOTAL CAPITAL	61.456.734	69.546.804	64.962.218	59.866.560	44.275.566

Bank's Shareholders as at December 31st, 2015:

SHAREHOLDERS	Ordinary shares	% STAKE	Preferred shares	% STAKE	TOTAL SHARES	% STAKE IN SHARE CAPITAL
Republic of Serbia	7.020.346	41,75	-	0,00	7.020.346	40,80
EBRD	4.109.440	24,45	-	0,00	4.109.440	23,90
IFC	1.706.810	10,15	-	0,00	1.706.810	9,90
DEG	772.850	4,60	-	0,00	772.850	4,50
SWEDFUND	386.420	2,30	-	0,00	386.420	2,25
OTHER	2.822.090	16,75	373.510	100,00	3.195.600	18,65
TOTAL	16.817.956	100,00	373.510	100,00	17.191.466	100,00

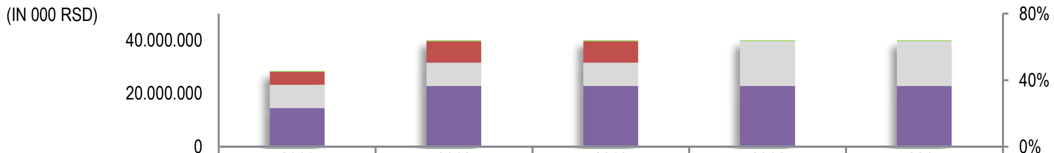
BANK'S TOTAL CAPITAL



	2011	2012	2013	2014	2015
LOSS					-6.299.631
RETAINED EARNINGS	3.551.893	4.185.812	6.687.971	6.755.855	179.550
REVALUATION RESERVES	625.680	860.758	1.604.257	2.120.959	2.606.824
RESERVES FROM PROFIT	11.635.440	14.785.440	16.635.440	20.635.440	24.935.440
SHARE CAPITAL	28.462.553	40.034.550	40.034.550	40.034.550	40.034.550
MOVEMENTS OF CAPITAL in %	8%	35%	9%	7%	-12%
TOTAL CAPITAL	44.275.566	59.866.560	64.962.218	69.546.804	61.456.734

Total capital of the bank at the end of 2015 was RSD 61,457 million and was reduced 11.6% compared to the year 2014. In the period between 2010 and 2015 the Bank's capital increased by 49.7%. At the same period, the share capital increased as a result of two issues of preference convertible shares (in 2010 in the amount of RSD 11,400 million and in 2012 RSD 11,572 million). Over the past ten years, due to the strategic orientation of the shareholders, the bulk of realized profit, 83.6% on average a year, was allocated into reserves for estimated losses with the aim of ensuring the security of operation and maintaining capital adequacy i.e. for protection of share capital from possible losses and with the aim of increasing fixed assets. Over the past five years the Bank has formed additional reserves of RSD 15,281.1 million from realized profit and on the basis of revaluation reserves, of which RSD 4,785.9 million in 20015.

SHARE CAPITAL OF THE BANK

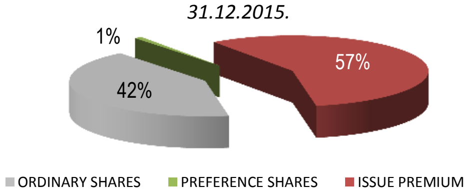


	2011	2012	2013	2014	2015
PREFERENCE SHARES	373.510	373.510	373.510	373.510	373.510
PREFERENCE CONVERTIBLE SHARES	4.798.190	8.108.646	8.108.646	0	
ORDINARY SHARES	8.709.310	8.709.310	8.709.310	16.817.956	16.817.956
ISSUE PREMIUM	14.581.543	22.843.084	22.843.084	22.843.084	22.843.084
GROWTH RATE	0%	41%	0%	0%	0%
TOTAL SHARE CAPITAL	28.462.553	40.034.550	40.034.550	40.034.550	40.034.550

Ordinary shares of the Bank have been traded at the standard market of Belgrade Stock Exchange since 2010. During 2014 preference convertible shares were converted into ordinary shares. Therefore, there were no changes in the structure of share capital in 2015. As of 31 December 2015 the Bank had 16,817,956 regular shares of individual nominal value of RSD 1,000.

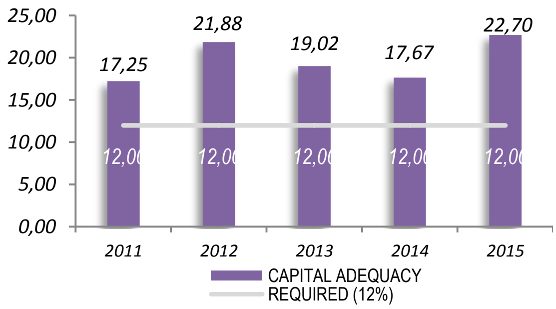
At the end of 2015 the Bank's ordinary and preference shares were held by 1,152 and 621 shareholders respectively.

STRUCTURE OF SHARE CAPITAL AS OF 31.12.2015.



In the observed period, as well as in 2015, the Bank fulfilled all the operating parameters prescribed by the Law on Banks and fulfilled all its obligations, which is a reliable indicator of stable and safe operation.

CAPITAL ADEQUACY (IN %)



Capital adequacy

At the end of 2015 the Bank's capital adequacy ratio was 22.7% after a significant increase in impairments and provisions, which attests that the Bank has managed to secure adequate level of capital.

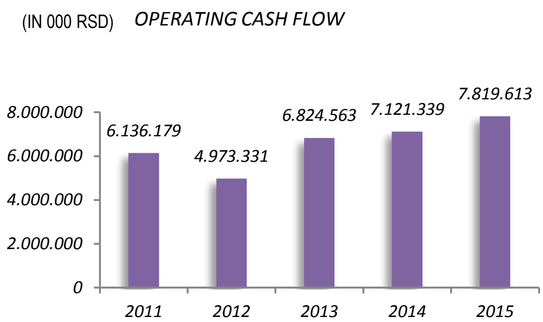
Performance indicators

No.	ITEM	REQUIRED	31.12.2015.	31.12.2014.	31.12.2013.	31.12.2012.	31.12.2011.
1.	CAPITAL ADEQUACY RATIO	MIN. 12%	*22,70%*	17,67%	19,02%	21,88%	17,25%
2.	RATIO OF INVESTMENT INTO ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAKS. 60%	23,13%	27,60%	24,67%	18,38%	27,98%
3.	LARGE EXPOSURE RATIO	MAKS. 400%	79,76%	160,59%	97,78%	107,37%	109,51%
4.	FX RISK RATIO	MAKS. 20%	10,60%	2,90%	2,12%	0,82%	1,68%
5.	LIQUIDITY RATIO	MIN. 0,8	2,73	2,84	3,45	2,18	2,91

Operating cash flow

At the end of 2015 operating cash flow was RSD 698 million higher year-on-year (increase of 9.8%). At the end of the observed year there was an increase in receipts from fees of RSD 243.8 million (4.3%), while the receipts from interest recorded a loss of RSD 1,288.5 million in the same period (6.4%). On the side of outflow from business activities, interest expenses were RSD 2,155.3 million lower (decrease of 26.7%) primarily due to the decline in average interest rate on fixed-term deposits.

Percentage of collected interest and fees at the end of 2015 was 98.8%, whereas at the end of 2014 it was 94.7%, which is an increase of 4.1 percentage points.



Purchase of treasury shares and equities

The Bank did not have its treasury shares as of 31 December 2015 nor did it hold them during 2015. Also, the Bank does not intend to acquire treasury shares in the upcoming period.

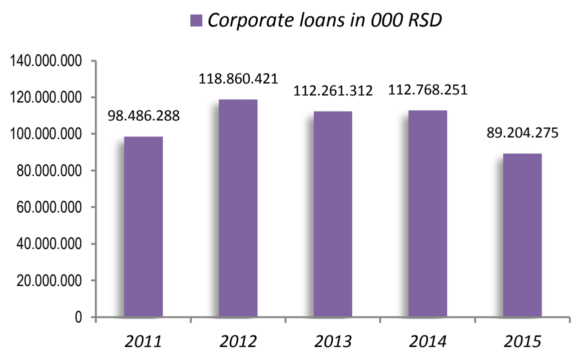
5.2. Corporate activities

Market – key trends

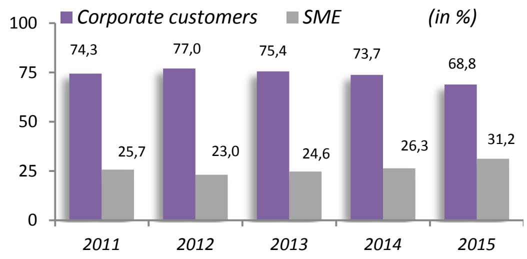
A declining trend in lending interest rates in 2014 continued in 2015 as well resulting in a historic low of lending interest rates (loans with a currency clause below 2%, dinar loans below 4%). Despite very low interest rates, lending activity recovered as late as at the very end of 2015 (inclusive of November 2015, the level of corporate loans in the banking sector was still lower when compared to the end of 2014). The year 2015 was also the first year, since 2009, without subsidized corporate loans, which significantly affected the demand for loans in the first half of the year.

Loans[9] - the Bank's operations

Activities were focused on the sector of small and medium sized enterprises. Therefore, in 2015 a lot of effort was made to maintain the portfolio in this segment: special offer of loans with fixed interest, lending from EIB APEX III/A credit line, KOM DIN PROGRESSIVE credit line.



[9] Item loans and deposits to customers does not include other investments

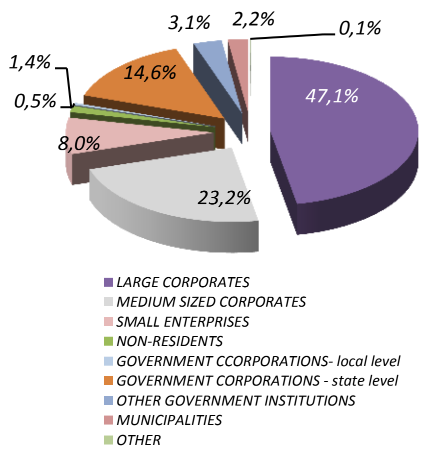


Regular repayment of subsidized loans from 2014 that were available in dinars only, as well as dinar stability in the environment of very low interest on loans with a currency clause resulted in reduced share of dinar loans in the loan portfolio (31. December 2015 the share of dinar loans was 13.8%, drop of 9 percentage points compared to the end of 2014).

Great pressure from competitors to reduce interest rated, the decline in portfolio due to prepayments of loans (RSD 6 bn) resulted in a considerable decrease in interest income in 2015.

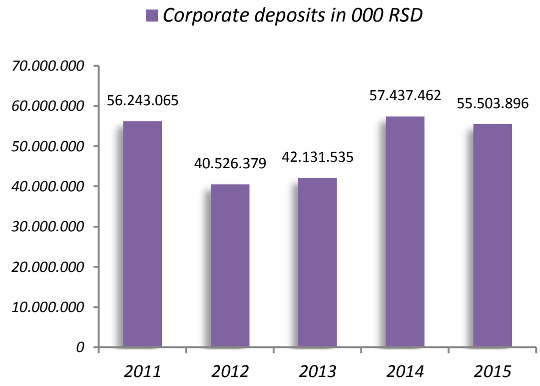
As for competition, throughout 2015 the most active banks were Banca Intesa a.d., Beograd and UniCredit Banka Srbija a.d., Beograd, with occasional campaigns by ProCredit a.d., Beograd, Vojvođanska banka a.d., Novi Sad, Erste banka a.d., Novi Sad, Societe Generale banka Srbija a.d., Beograd. What is noticeable among all competitors is the significantly more liberal approach (interest rates, maturities, required collaterals) for granting loans than several years before.

Customer structure as of 31.12.2015



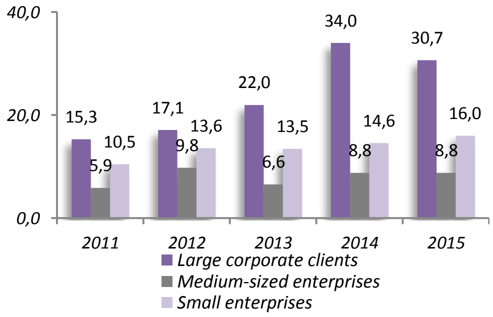
Deposits [10]

Reduction in borrowing interest rates, enduringly complex market conditions for companies i.e. reduced liquidity in the economy resulted in a reduction of corporate deposits of 3.4% at the end of 2015 when compared to 2014.

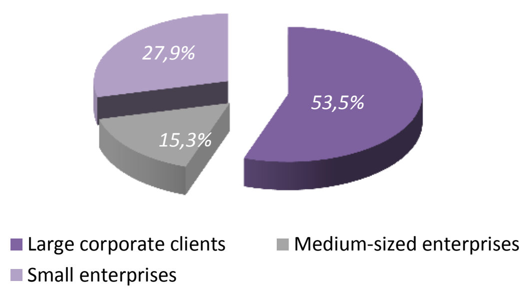


After the decrease in deposits from legal entities in 2012 and 2013, the Bank experienced relative stability of amounts of received deposits.

Structure of corporate deposits in RSD bn



Structure of depsitors as of 31.12.2015



10 Item deposits does not include other liabilities and funds received from credit lines.

5.3. Retail Operations

Market – Main Tendencies

General facts which may have an impact on lending activity and characterize 2015 are as follows:

- High average unemployment rate of nearly 18% in 2015 (16.7% in the third quarter);
- The average indebtedness is still relatively low compared to other countries in the region, amounting to EUR 900 or 2.5 average earnings, of which EUR 819 in terms of loans, EUR 33 minus per current account, credit card EUR 41 and EUR 7 debt on leasing[11];
- In order to reduce the budget deficit, in October 2014 the Government of the Republic of Serbia adopted the Decision on the Reduction of Wages in the Public Sector (linear 10% decrease) and reduction of pensions above the amount of RSD 25,000 as of November 2014. This decision was reflected in the reduction of the client's borrowing possibilities that are the focus of attention of banks.
- Difficulties in the operations of companies from the private sector, which are reflected in delays in payment of wages, the transition of a number of employees to the minimum guaranteed income, which hinders proper servicing of existing liabilities to banks as well as the possibility of new borrowing.

Despite all the above, and even more pronounced problems in the corporate operations segment, the banks have shifted their operations to retail clients. Thus, according to the Association of Serbian Banks (ASB), the number of borrowers - retail clients compared to 2014 increased by 115,697.

On the other hand, activities in debt collection are slower and there is an existent increase of loan users in default by 7386 (number of past due over 90 days increased by 3,493 and amounts to 121 761). According to the NBS, at the banking sector level there has been a growth of NPLs in the retail segment and it came to 11.1% (the latest data as of 30 September 2015), while until 31 December 2014 amounted to 10.5%.

[11] Serbian Association of Banks

The focus of banks was on attracting new customers, but also preserving the existing portfolio from the attempts of customer takeover by other banks that offer different benefits to customers when opening current accounts, favourable interest rates for different credit products, with special emphasis on loans for refinancing of obligations to other banks. Some groups of clients, primarily employed in state institutions (Ministry of Interior, Serbian Army and other budget users) were the subject of special offers with more favourable conditions, primarily in terms of the interest rate. Therefore, 86% growth in total number of clients was achieved in the refinancing segment.

In the segment of housing loans, since 2011 a trend has been present of a reduced demand, which stopped in 2015 because the total amount of granted loans insured with the National Mortgage Insurance Corporation (NMIC) was at the level of 2014.

According to data from NMIC, in 2015 the total realized amount of housing loans is 0.4% lower than in 2014, with subsidized loans decreased by 40.2% and unsubsidized slightly increased by 7.4%. In terms of subsidized loans, the realization of loans granted in the previous year - 2014 was in presence, along with the subsidies intended for military personnel granted only by Societe Generale Bank Srbija ad, Beograd Hypo Alpe-Adria Banka ad, Beograd.

Housing loans insured with NMIC with no subsidy in 000 EUR					
Year	Banking sector		KB		KB share
	No.	Amount	No.	Amount	
2015	4.897	163.621	781	23.573	14,41%

Subsidized housing loans in 000 EUR					
Godina	Banking sector		KB		KB share
	Broj	Iznos	Broj	Iznos	
2015	482	17.925	0	0	0,00%

Total insured housing loans in 000 EUR					
Year	Banking sector		KB		KB share
	No.	Amount	No.	Amount	
2015	5.379	181.546	781	23.573	12,98%

There were no subsidized loans for liquidity in the corporate clients segment.

The State continued to subsidize agri loans in 2015.

Loans – operation of the Bank

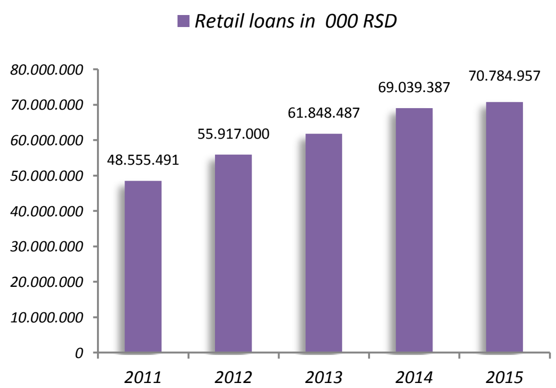
In 2015, RSD 24.8 billion in loans was achieved, which is 2.7% more than in 2014. The realization increased in part of cash and agricultural loans. The decline was recorded in the segment of housing loans where foreign-owned banks had a competitive offer considering that they had cheaper sources of funds from their foreign Head Offices. The reasons lie in the low rate of EURIBOR and facilitated borrowing in foreign markets due to the policy of the European Central Bank. In addition, there was no subsidy, and there was reduced demand. On the other hand, the highest increase compared to 2014 relates to cash loans (23.8%).

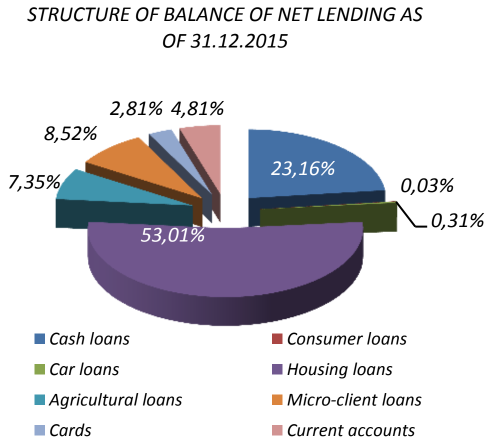
The Bank was able to achieve growth in agricultural loans by 6.4%, primarily subsidized, loans from the Bank's own potential, and special offers, credit lines, and in cooperation with dealers of agricultural machinery.

Fall of realized loans to micro-clients amounted to 5.9% and is caused primarily by saturation of clients with subsidized loans provided for by the Regulation from 2014, in the first half of 2015.

In 2015, of total loans, most realized were cash loans (51.4%), followed by micro-loans to customers (23.6%) and agricultural loans (13.1%). The growth of retail loans was achieved thanks to redesigning of the existing offer in terms of adapting to market demands and maintaining competitiveness through introducing new products in the Bank's regular offer, introducing action products, products from credit lines of the Bank. In addition, significant contribution was made by the competitive foreign credit lines for micro and agriculture segment.

Of total realized loans, 61.2% were in the local currency, while the total balance of retail loans local currency loans accounted for 34.1%.





Business segment of payment cards

In the business segment of payment cards, the Bank preferred the quality of the supply and maintenance of high-quality services in order to strengthen competitiveness. Below are some of the activities undertaken in 2015:

- New card: Visa PayWave
- New services:
  - E-commerce,
  - Change of PIN in the ATMs,
  - Card blockade via E-bank.
- Stimulating the use of PayPass cards on the Bank's POS, with technical and technological improvements.

The following was achieved compared to 2014:

- Growth of turnover on POS by 19.7%, and on ATMs by 12.3%,
- Growth in the number of issued cards by 4 %,
- No interest instalment sale: about 430 merchants and about 1.400 locations.

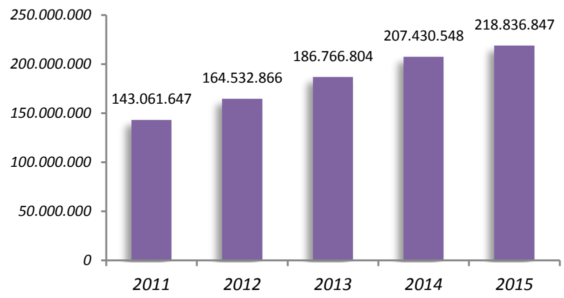
All this contributed that the Bank, according to official data of the NBS, had significantly faster growth in the value of transactions (11.8%) than the growth recorded in Serbia (9.9%), which leads to an increase in market share to 14.4%.

Deposits[12] - operation of the Bank

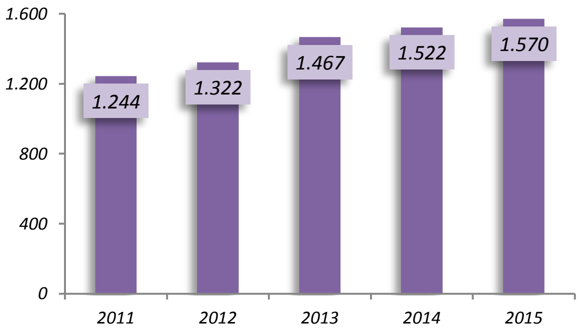
At the level of the banking sector, in 2015, a growth of total foreign currency deposits of EUR

12 Deposit position does not include other liabilities and funds received through credit lines

86 million was achieved, while the growth rate of the Bank of EUR 55 million in 2015 enabled KB to maintain its leading position in the market and increased its share to 19.46% despite lowering its interest rates on several occasions.

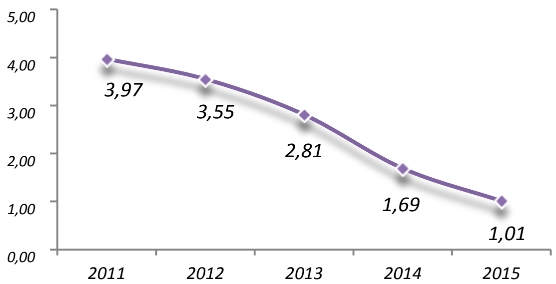


In these market conditions the right relationship between price and brand image of the Bank and the desired and stable growth of deposits was established.



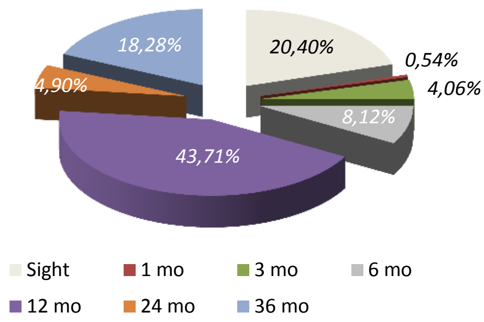
*FX savings shown do not include special-purpose FX accounts (pensioners) and entrepreneurs.

Trends in weighted interest rate on FX savings



The price of retail deposits continued to decline in line with market conditions and the perception of the Bank.

FX savings structure as of 31.12.2015

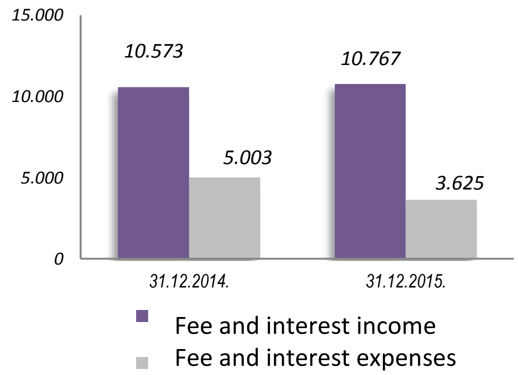


In foreign currency savings there was a stable participation of term savings for a period of over 12 months, and amounted to 53.32%, and the dominance of deposits of up to EUR 50,000 (by number over 99%, and by amount 79.3%).

Profitability

Interest income amounted to RSD 7,140 million and recorded an increase compared to 2014 of 1.3%, while fee income amounted to RSD 3,627 million, which was an increase of 3.0%. Total net income amounted to RSD 7,133 million, which represents a significant increase of 28.0% compared to the previous year.

Fee and interest income and expenses in RSD million



5.4. Asset Management

Starting from the strategic orientation of the Bank, the activity of the Treasury business function focused on active asset and liquidity management, while ensuring the smooth functioning of the Bank and meeting the business needs of clients.

The environment in which the Treasury operated during 2015 was marked by changes in the monetary policy of domestic and international central banks.

Activities of the NBS included:

- successive reduction in key-policy rate from 8.0% to 4.5%,
- successive reduction in interest rate on dinar required reserve from 2.50% to 1.75%,
- successive change in the rates for calculation of required reserve (reduction in the rate on FX deposits of two-year maturity from 26% to 20%, reduction in interest on deposits with maturity of over 2 years from 19% to 13%, increase in rate for deposits with currency clause from 50% to 100%).

Also, the European Central bank (ECB) and the Swiss National Bank reduced their key-policy rates.

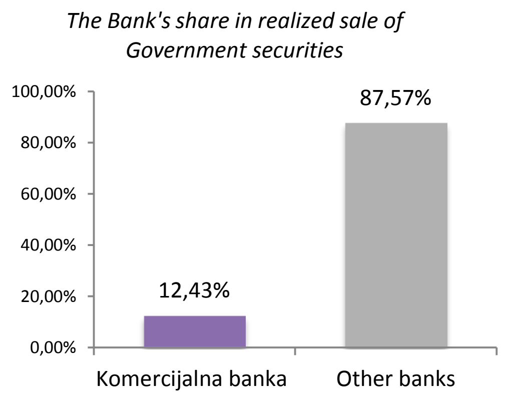
These changes had considerable consequences on the interbank market:

- overall decline in interest rates on the money market,
- introduction of negative interest rates on investments in foreign banks,
- surplus liquidity.

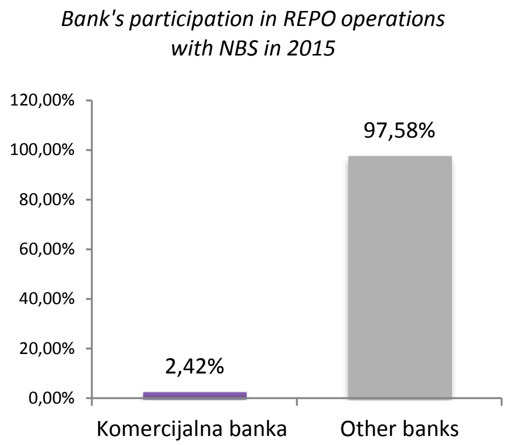
During 2015 Komercijalna banka established itself as one of the most active participants in the local financial market.

In 2015 the Bank's liquidity position was stable and liquid assets were mostly invested in government securities. Surplus liquidity was placed at NBS, and to a lower degree into interbank market and reverse repo operations at the NBS.

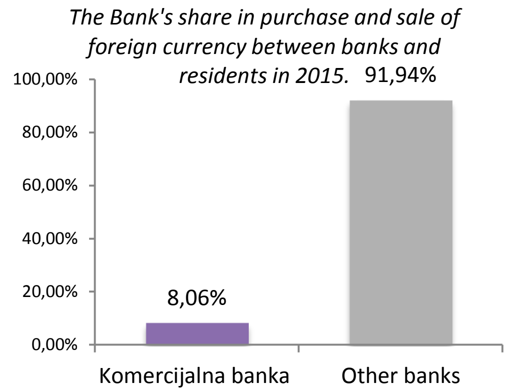
The general decrease in interest rate resulted in a spillover of short-term investments into long-term first-class financial instruments that have higher yield. This applies primarily to investment of liquid assets into government securities.



The Bank's extremely active role in the securities market was accompanied by occasional involvement in NBS operations in the open market – reverse repo operations.



Treasury's activities in the FX market were also intensive. With a total purchase of EUR 837 million and with a total sale of EUR 752 million, the Bank is one of the most active participants in the FX market.



During 2015the Bank did not enter into new loan agreements with foreign creditors. During the year 2015 the Bank agreed to refinance the credit line with the EBRD in the amount of EUR 30 million that will be implemented in 2016 as a part of the Bank's broader campaign to foreign creditors to reduce the margin for loans that are currently used.

5.5. Balance Sheet of the Bank as of 31 December 2015

(IN 000 RSD)

No.	ITEM	31.12.2015.	31.12.2014.	INDEX	% OF SHARE AS OF 31.12.2015
1	2	3	4	5=(3:4)*100	6
	ASSETS				
1.	Cash and assets at the central bank	63.523.715	68.547.389	92,7	16,2
2.	Pledged financial assets	-	-		
3.	Financial assets at fair value through profit & loss account intended for trade	851.056	121.634	699,7	0,2
4.	Financial assets that are initially recognized at fair value through profit&loss	-	-		
5.	Financial assets available for sale	127.173.383	95.481.249	133,2	32,5
6.	Financial assets held to maturity	-	51.442		
7.	Loans and receivables from banks and other financial organisations	16.844.000	34.737.605	48,5	4,3
8.	Loans and receivables from customers	162.742.565	185.377.035	87,8	41,5
9.	Changes in fair value of items that are subject to hedging	-	-		
10.	Receivables from financial derivatives intended for hedging	-	-		
11.	Investment in affiliations and joint ventures	-	-		
12.	Investment in subsidiaries	5.480.888	5.480.888	100,0	1,4
13.	Intangible assets	216.830	405.774	53,4	0,1
14.	Property, plant and equipment	6.139.572	6.329.077	97,0	1,6
15.	Investment property	2.744.026	2.581.144	106,3	0,7
16.	Current tax assets	37.017	73.835	50,1	
17.	Deferred tax assets	-	-		
18.	Fixed assets intended for sale and assets from discontinued operations	63.314	84.227	75,2	
19.	Other assets	6.040.483	6.990.225	86,4	1,5
	TOTAL ASSETS (from 1. to 19.)	**391.856.849**	**406.261.524**	**96,5**	**100,0**

(in 000 RSD)

No.	ITEM	31.12.2015.	31.12.2014.	INDICES	% OF SHARE AS OF 31.12.2015
1	2	3	4	5=(3:4)*100	6
	LIABILITIES				
1.	Financial liabilities at fair value through profit&loss intended for trade	-	-		
2.	Financial liabilities that are initially recognized at fair value through profit&loss	-	-		
3.	Liabilities from financial derivatives intended for hedging	-	-		
4.	Deposits and other liabilities to banks, other financial organisations and the central bank	17.159.317	23.743.018	72,3	4,4
5.	Deposits and other liabilities to other customers	300.005.903	301.954.911	99,4	76,6
6.	Changes in the fair value of items that are subject to hedging	-	-		
7.	Issued treasury securities and other borrowed assets	-	-		
8.	Subordinated debt	6.077.962	6.036.680	100,7	1,6
9.	Provisions	2.109.020	1.640.595	128,6	0,5
10.	Liabilities from assets intended for sale and assets from discontinuing operations	-	-		
11.	Current tax liabilities	-	-		
12.	Deferred tax liabilities	127.545	150.407	84,8	
13.	Other liabilities	4.920.368	3.189.109	154,3	1,3
14.	**TOTAL LIABILITIES (from 1. to 13.)**	**330.400.115**	**336.714.720**	**98,1**	**84,3**
	CAPITAL				
15.	Share capital	40.034.550	40.034.550	100,0	10,2
16.	Treasury shares				
17.	Profit	179.550	6.755.855	2,7	
18.	Loss	6.299.631			1,5
19.	Reserves	27.542.265	22.756.399	121,0	7,0
20.	Unrealized losses	-	-		
21.	Non-controlling stakes	-	-		
22.	**TOTAL CAPITAL (from 15. to 21.)**	**61.456.734**	**69.546.804**	**88,4**	**15,7**
23.	**TOTAL LIABILITIES (14.+22.)**	**391.856.849**	**406.261.524**	**96,5**	**100,0**

5.6. Profit & Loss of the Bank for 2015

(IN 000 RSD)

No.	ITEM	31.12.2015	31.12.2014	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	18.856.309	21.224.379	88,8
1.2.	Interest expenses	(5.326.500)	(7.925.793)	67,2
1.	**Interest gains**	**13.529.809**	**13.298.586**	**101,7**
2.1.	Fee and commission income	6.004.106	5.677.040	105,8
2.2.	Fee and commission expenses	(1.104.159)	(959.283)	115,1
2.	**Fee and commission gains**	**4.899.947**	**4.717.757**	**103,9**
3.	Net profit from financial assets intended for trade	3.186	6.076	52,4
4.	Net profit / (loss) from hedging	-	-	
5.	Net profit / (loss) from financial assets initially recognized at fair value through profit&loss	-	-	
6.	Net (loss) / profit from financial assets available for sale	(8.664)	51.282	
7.	Net expenses from exchange rate differences and from effects of agreed currency clause	(13.439)	(205.943)	6,5
8.	Net profit / loss from investment in affiliations and joint ventures	-	-	
9.	Other operating income	460.419	569.191	80,9
10.	Net expenses for impairment of financial assets and off-balance-sheet items that carry credit risk	(13.008.526)	(2.725.389)	477,3
11.	**TOTAL NET OPERATING INCOME**	**5.862.732**	**15.711.560**	**37,3**
12.	Cost of salaries, allowances and other personnel expenses	(4.121.590)	(4.211.489)	97,9
13.	Depreciation	(797.401)	(844.632)	94,4
14.	Other expenses	(7.357.899)	(5.897.850)	124,8
15.	**(LOSS) / PROFIT BEFORE TAX (from 1. to 14.)**	**(6.414.158)**	**4.757.589**	
16.	Profit tax	-	-	
17.	Profit from deferred taxes	114.554	47.547	240,9
18.	Loss from deferred taxes	(27)	(19.559)	0,1
19.	**PROFIT/LOSS AFTER TAX (from 15. to 18.)**	**(6.299.631)**	**4.785.577**	
20.	Net profit from discontinued operations	-	-	
21.	Net loss from discontinued operations	-	-	
22.	**RESULT FOR THE PERIOD – (LOSS) / PROFIT (from 19. to 21.)**	**(6.299.631)**	**4.785.577**	

6. RISK MANAGEMENT

6.1. Financial risk management objectives and policies

Risk management is a key element of business management given that the risk exposure arises from all the business activities, as an inseparable part of the banking operations, which is managed through the identification, weighing, mitigation, monitoring, control and reporting, i.e. setting of risk limits and reporting in accordance with the strategies and policies.

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

Under the Risk management strategy and Capital management strategy, the Bank has set the following objectives within the risk management system: to minimize adverse effects on the financial result and capital with the respect of the defined framework of acceptable risk levels, to maintain the required level of capital adequacy, to develop Bank`s activities in accordance with business opportunities and market developments in order to materialize competitive advantages.

A more detailed overview of risk management objectives and policies of the Bank is presented in Section 4 Note to the Financial Statements.

Policy of protection from exposure to credit risk
In order to ensure protection against exposure to credit risk, the Bank applies credit risk mitigation techniques through the respect of exposure limits, diversification of investment and obtaining of acceptable security instruments (collaterals) as a secondary source of loan collection. The Bank seeks to do business with customers of good credit standing, assesses the creditworthiness of each customer at the time of submission of requests and monitors borrowers, loans and collaterals, in order to be able to take appropriate actions in order to collect receivables.
Security types depend on the credit risk assessment of borrowers, and are determined in each case individually, and their acquisition is carried out after signing the contract and before the realization of the placement.

The Bank's internal acts regulate the valuation of credit protection instruments and management of these instruments.

When assessing the value of a collateral, the Bank engages authorized assessors, to reduce the potential risk of unrealistic valuation reduced to a minimum, and real estate, commodities, equipment and other movable property which is the subject of pledge must be insured with an insurance company acceptable to the Bank with an insurance policy endorsed to the Bank.

In order to protect against changes in the market value of the collateral, the estimated value is adjusted for impairment defined percentages depending on the type and location of real estate collateral, which is reviewed at least annually and revised.

The Bank pays special attention to the monitoring of collateral and take actions on securing new valuation, but also on obtaining additional collateral, primarily for clients with identified problems in business, but also clients with the coverage of collateral decreased due to falling value of collateral obtained.

In October 2015, the Bank changed the methodology for valuation of collateral, in accordance with the requirements of the National Bank of Serbia, a proposal by an external consultant. The amendments relate to: the height haircut by type of collateral, the expected payment period from realization of collaterals, integration of multiple categories of collateral by region.

Those changes affected the change in the methodology for determining the allowance for impairment of balance sheet assets and provisions for losses on off-balance sheet items, and therefore the amount of the calculated correction values in 2015.

The significant increase in impairment allowances in 2015 is a result of lower valuation of the mortgage, new risk assets, deterioration of portfolio quality, starting bankruptcy proceedings, the completion of bankruptcy procedures, and restrictive application of new methodologies for valuation of collateral, as well as the results of PDI and the due diligence process privatization and other factors.

6.2. Risk exposure (to price, credit, liquidity risk and cash flow risk) with the strategy for risk management and assessment of their effectiveness

In its operation the Bank is particularly exposed to the following types of risks:

Credit and related risks
Liquidity risk
Operational risk
Investment risk
Exposure risk
Country risk , as well as all other risks that might arise during the regular operation of the Bank.

Credit risk is the possibility of negative effects on financial result and capital due to non-fulfillment of debtor's obligations to the Bank. Credit risk is caused by the debtor's creditworthiness, its regularity in settling liabilities to the Bank, as well as the quality of collateral. Acceptable level of credit exposure of the Bank in accordance with the defined risk management strategy and depends on the structure of the Bank's portfolio, based on which allows limiting negative effects on the financial result and equity while minimizing capital requirements for credit risk, settlement and delivery and counterparty risk Contracting Parties in order to maintain capital adequacy ratio at an acceptable level. The Bank grants loans to customers (legal entities and individuals) which are estimated to be creditworthy. The Bank performs analysis, and quantitative and / or qualitative measurement and assessment of credit risk. Credit risk measurement process is based on measuring risk level of individual loans based on internal rating system, as well as the implementation of regulations of the National Bank of Serbia, which require classification of receivables and investments based on the prescribed criteria and calculation of reserves for estimated losses. In this regard, the Bank classifies receivables and calculation of the required level of reserves for potential losses. The monitoring and control of the portfolio as a whole and by individual segments, the Bank makes comparisons with previous periods, identifies the trends and causes of change in the level of credit risk. Also, monitor asset quality indicators (NPL trends, NPL coverage rate allowances and the like), and exposure to regulatory and internally defined limits. The process of monitoring the quality of loan enables the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective measures. On the other hand, the Bank does not invest in high-risk investments such as investments in potentially profitable projects or high risk investment funds in high-risk portfolio, etc.

At the initiative of the National Bank of Serbia, in order to further strengthen the supervisory and regulatory framework, improve the framework for resolving the issue of troubled banks, as well as taking action to address the issue of higher level of NPLs in the banking system during 2015, the Bank has been the subject of a special diagnostic tests (PDI), conducted by the consultant audit firm.

Liquidity risk represents the possibility of negative effects on financial result and equity due to inability to meet its payment obligations when due, as well as to quickly provide liquid assets without major costs. Liquidity risk arises from the Bank's difficulty in meeting its due obligations in the event of insufficient liquidity reserves and inability to cover for unexpected outflows of other liabilities. The Bank operates in accordance with the basic principles of liquidity, maintaining a sufficient level of liquid assets to cover liabilities incurred in the short term, that respects the principle of solvency by establishing the optimal own and borrowed funds and the formation of a sufficient level of liquidity reserves which do not compromise realization of the projected return on equity. Liquidity risk arises from the Bank's inability to transform certain parts of assets in liquid assets in the short term. The Bank performs a risk analysis of sources of funds and market liquidity risks. The problem of liquidity in terms of sources of funds relates to the structure of liabilities, i.e. commitments and is expressed through potential significant share of unstable and short-term sources or their concentration. Liquidity risk sources of funds actually represents the risk that the Bank will not be able to meet its obligations due to the withdrawal of unstable sources of funds, or the inability to obtain new sources of funding. On the other hand, liquidity risk is the liquidity reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

The Bank actively take preventive measures to minimize the exposure to liquidity risk.

Market risk represents the possibility of negative effects on financial result and equity due to changes in market variables and comprises interest rate risk in the banking book, currency risk for all business activities performed and the price risk of the trading book.

Interest rate risk is the risk of negative effects on financial result and equity through items of the banking book due to unfavourable changes in interest rates. Bank of comprehensive and timely manner to determine causes of the current and estimated future factors exposure to interest rate risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of impact on the financial results and economic value of equity, conducting adequate policy of compliance period of repricing and matching sources to investments by the interest rate and maturity.

The Bank is exposed to foreign exchange risk, which is manifested through the possibility of negative effects on financial result and capital due to the volatility of foreign exchange rates, relationships, changes in the value of the domestic currency in relation to foreign currencies or changes in the value of gold and other precious metals. In order to minimize exposure to foreign exchange risk, the Bank diversifies the currency structure of its portfolio and currency structure of liabilities, the harmonization of open positions in certain currencies pursuant to the principles of maturity transformation.

Operational risk is the possibility of negative effects on financial result and equity due to failures by employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk, which is the risk of negative effects on financial result and capital arising from judicial or non-judicial proceedings. Bank takes measures to mitigate operational risks and ensure proactive response to potential events of operational risks through continued monitoring of all activities, the application of adequate and reliable information system, and whose implementation is improving business practice and optimize the Bank's business processes. In order to minimize the legal risks and the impact of same on the financial results, the Bank continues to improve its business practices relating to the timely provisions for damage claims against the Bank, in accordance with the estimate of future expected loss on that basis. Investment risk is the risk that the Bank's investments in other legal entities and in fixed assets.

Great exposure to a single entity or group of related entities, including the Bank's related parties is the exposure of at least 10% of its capital.

Country risk is the risk related to the country of origin of the entity to which the Bank is exposed, and the risk of negative effects on financial result and equity due to inability to collect receivables from debtors for reasons arising from political, economic or social conditions in the country origin of the debtor.

The detailed account of risks to which the Bank is exposed in its operations has been presented in Section 4 Note to the Financial Statements.

7. FUTURE DEVELOPMENT, SOCIALLY RESPONSIBLE OPERATION

Project management and project portfolio management

In 2015, a total of 7 projects with a total budget of EUR 856 thousand, while as at 31 December 2015. The other 17 projects in the Bank's portfolio.

Projects closed in 2015

Category	Number of projects
Regulatory	1
Optimization and improvement	1
IT projects	5
Total	7

The most important closed projects in 2015 are:

- Migration to SQL Server - successfully executed the migration with minimal downtime Core banking applications that depend on the Core system, with the same or better performance of applications and the same or better functionality that brings a new version of the server SQL Server 2008 R2.
- The introduction of ISO 27001 certification - the project is of great importance to information security, decrease risk and improve information security management system (ISMS). The project objective criterion for success is to ensure all necessary controls for application of the principle of confidentiality, immutability and accessibility of information, protection of information and data as well as acquiring ISO27001: 2013 certification.
- Consolidated reporting - Compliance Group with the legislation of the parent bank, in

compliance with the regulations of the National Bank of Serbia.

Active projects as of 31 December 2015

Category	*Number of projects*
Strategic	*3*
Regulatory	*2*
Optimization and improvement	*12*
Total	*17*

The most active projects at 31 December 2015 were:

- ✓ Project privatization is carried out in order to prepare and implement the plan to sell shares of the Bank in accordance with the required activities by the privatization advisor
- ✓ Implementation of SMARAGD TCM module 'PEP identification' - The goal of the project is to establish a legal and international standards pertaining to the efficient management of financial, reputational and regulatory risk of the Bank especially in the area which includes the identification of natural and legal persons involved in money laundering and terrorist financing , bribery, corruption and external fraud.
- ✓ Upgrading WEB2.0 new generation KomBank Applications - Scope of the project relating to the development and implementation of new functionalities / improvements eBank applications and applications for mobile banking.
- ✓ The implementation of Basel II Internal Access - The program includes 5 projects. The aim of the implementation of the Bank's internal approach is to improve risk management through the development of internal models adapted given the risk profile of the Bank. The increase in the Bank's ability to accurately measure and assess the risks to which it is exposed, would lead to a reduction of negative effects on financial result and capital, and thus to increase the capital adequacy ratio.
- ✓ Implementation of SAP ERP module Real Estate Management - flexible real estate management SAP ERP module is designed to cover all business requirements in the processes related to the property, providing a complete picture of all business transactions in the life cycle of each property included in this module.

Marketing, surveys and CSR activities

Keeping a position at the very top of the baking market was aided by clearly planned and implemented marketing and PR activities in a turbulent year such as 2015. Emphasis was on existing products that were enriched with special offers and more favourable terms when compared to the previous period. As a novelty, we have promoted a service for the oldest target group – the pensioners – Veteran plus loans.

Apart from this campaign Veteran Plus, we also launched campaigns for cash and housing loans, activities on promoting farmer loans, as well as a range of payment cards.

With the use of standard communication channels we continued with planned, intensive, targeted and comprehensive communication on social networks (facebook, Twitter, YouTube, Google +, 4Square, LinkedIn) which enhanced the effects of promotional campaigns.

Efficiency of promotional campaigns was continuously supplemented with adequately designed PR support.

Special contribution to the increase in the value of corporate image was made by CSR activities which the Bank carefully selected and supported and in which it actively cooperated with its partners.

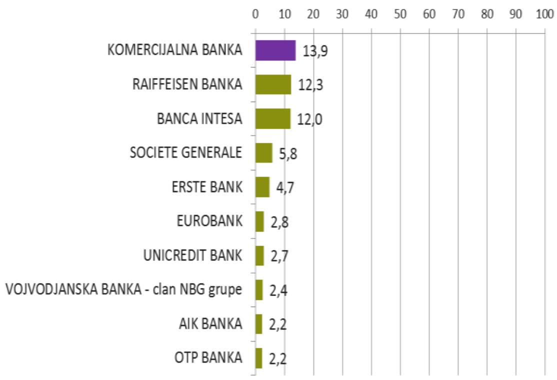
The campaign “Together for babies” that was launched in 2014 lasted throughout 2015, making considerable contribution to the Bank establishing itself as a leader and initiator off these and similar projects.

Apart from this, in the project “School of talent of Komercijalna banka” the Bank supported the most talented secondary school graduates from 150 secondary schools, and at the same time supported Young literary super talents selected by Samizdat. We supported also athletic “taekwondo” and other members of the national team in non-commercial sports in their preparation for the Olympics in Brazil. We spotted and selected accurately and in good time the “jewels’ of Serbian sport Ivana Španović, Milica Mandić, Tijana Bogdanović, etc.
We gained a lot of media attention with more than 20 very well frequented exhibitions in the gallery Kombank Art Hall which was met with great public approval.

We continued with very good exploitation of naming sponsorship of Kombank arena, as the most prestigious sports and concert venue in Serbia. Even with a reduced number of musical and sports events in 2015, recognition remained high and was even increased, so the year 2015 can be considered a year of definite „victory“ of the name Kombank arena.

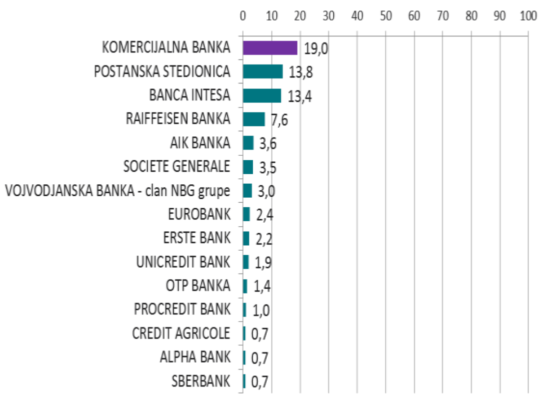
Marketing activities of subsidiaries in Montenegro and Republic of Srpska have been coordinated and implemented taking into account the prior analysis and the established position of the bank in these markets.

Advertising recall – Top of Mind – Top 10



Sources: IPSOS Strategic Marketing, Banking omnibus, November 2015

The best bank in Serbia – Top 15



To conduct market and customer satisfaction research, the Bank hired specialized, independent agencies for public opinion research. In this way, it seeks to provide adequate information that will be helpful, both compared to the competition, and in the process of making business decisions, especially important in the segment of development and improvement of new or modifications of existing products and services.

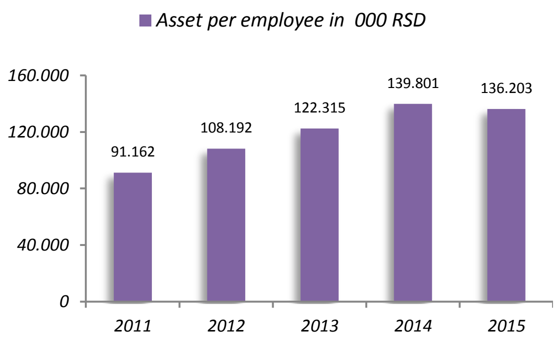
The market position of the Bank as a brand, its products and services, have been reviewed through specialized research, such as banking omnibus IPSOS and Satisfaction index clients - Faktor plus NCSI. Studies show that the Bank has been holding a leading position in the public eye for a long period, as measured by the criteria of brand recognition, quality and satisfaction with products and services that clients use. All research results are published on the Bank's internal portal for the target groups to get familiar with them in order to further strengthen the brand of Komercijalna Banka.

In the process of market signals monitoring and needs of current customers and attracting the potential new clients, business divisions of the Bank had offered customers new / special types of retail and micro-client loans in the past, and developed a range of products / services in segment of electronic banking and payment cards quite satisfactory for local conditions.

The results of research and development have been implemented in strategy and business plan of the Bank for the next period.

Human resources of the Bank

Human resources management mission in Komercijalna Banka consists of maintaining the high level of professionalism and motivation of employees in order to achieve the Bank's business plans. With the continuous optimisation of the number and structure of employees in the past years, efficiency of the Bank considerably grew, measured by the assets per employee. As a result of decrease in net assets in the last quarter 2015, this indicator temporarily recorded a mild dropdown.

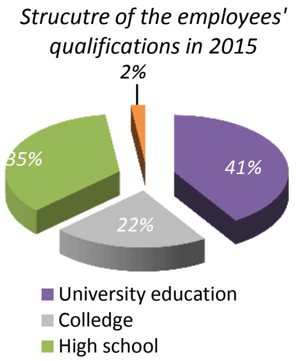


The Bank has been continuously investing in training and development of the employees. The development activities in 2015 indicate continuation of quality and pro-active approach to trainings' implementation, which have been primarily based on the needs, along with the adaptation of the training content, defining and providing internal trainings, organisation of internal and external trainings, measuring and quality improvement of the trainings and training process

Number of employees	2.877				
Branches	1.920				
Divisions	957				
Gender	Male		Female		
	774		2.103		
Employment status	Full time	Fixe term	Job protected time away		
	2.813	58	6		
Educational structure	University degree	College degree	High school degree	Unqualified/vocational qualification/higher vocational qualification	
	1.173	648	1.002	54	
Age structure	20-30	31-40	41-50	51-60	61+
	111	1123	737	848	58

Observed by case studies, the most common are professional trainings, aimed at the acquisition of new and improvement of existing knowledge. The most important areas of training in 2016 according to the criteria of topic importance and the number of participants are: product knowledge; organisation of teller operation; prevention of money laundering and financing of terrorism; E-banking; Payments; credit analysis and the like. In addition, the Bank also invests in trainings aimed at developing skills of employees in order to increase the performance of the business (sales skills, presentation, leadership, communication), as well as technical skills.

Since 2008, the Bank has been implementing the performance appraisal based on the annually set objectives, monitoring of the achievement of these objectives, but also the abilities of employees shown during the achievement of the objectives. The annual performance appraisal is the foundation for remuneration (remuneration system has been developed in coordination with the German consultant of ADG), career planning and budget planning, as well as the training program of the employees.
Remuneration principles have been clearly defined in the Remuneration Policy, passed by the Bank's Board of Directors at the proposal of the Compensation Committee, the body of the Board of Directors. The aim of this policy is not only to adequately compensate the employees but also to motivate them to achieve better work results.



Investments aimed at protecting the environment

The Bank respects the highest international standards and values in the creation of financial products and services, developing activities in the field of environmental protection and the protection of human and labour rights. By adopting policies and procedures in these areas, the Bank has defined standards for identifying and managing the risks of environmental and social protection in the process of approving and monitoring loans. The aim of the management system of environmental risk protection is to introduce the system in the process of lending and credit monitoring, as well as increasing opportunities for sound and sustainable economic development from the standpoint of environmental protection and to minimize the potential for negative environmental and social impacts.

The Bank has also defined the procedure for resolving and replying to complaints with regards to direct or indirect impact of the Bank's business activities on the social and living environment.

By negotiating credit lines for financing of investments aimed to increase the energy efficiency and development of renewable energy, the Bank has approved loans that contribute to reduction of energy consumption and decrease of emissions of carbon dioxide.

Likewise, the Bank continuously monitors extraordinary events of its clients, which may have negative effect on the environment, health or safety, or the community in its entirety, and informs thereof the Bank's management and shareholders.

In order to protect the environment and minimise the possibility to have events occurred that may have adverse material impact on the environment, health or security, or community in whole, the Bank does not finance any activity related to the production or trade in weapons and ammunition, and its financing of the clients whose main business is related to trade in alcoholic beverages, tobacco and gambling is down to a minimum, in line with the prescribed limits.
Methods of managing this risk include two management levels: the level of individual loan and the level of the entire portfolio. For each activity of the client, the Bank defines the risk level, or risk category from the aspect of environmental and social impact.

Rules of corporate governance

The rules of corporate governance at the Bank are based on the relevant legislation (primarily the Law on Banks and the Company Law).
Responsibilities and powers of the Bank's bodies (General Meeting of Shareholders, the Board of Directors, Executive Board, Audit Committee, the Asset and Liability Committee (ALCO) Compensation Committee, credit committees and other committees) are based on the relevant legal provisions and defined in internal regulations (the Memorandum on Association, the Articles of Association, terms of reference and rules of procedure of the Bank's bodies and other internal regulations).
In its operations the Bank implemented the Code of Corporate Governance of the Serbian Chamber of Commerce, which was adopted by the Assembly of Serbian Chamber of Commerce.

The rules of corporate governance are implemented through the internal regulations and there are no discrepancies in their application.

Code of Corporate Governance specifies corporate practice principles to which the Bank's holders of corporate governance adhere in everyday business. The aim of the Code is the introduction of best practices in the field of corporate governance, equal influence of all stakeholders, the existing and potential shareholders, employees, customers, the Bank's bodies, government authorities and others. The final objective is to provide long-term and sustainable development of the Bank.

The text of the Corporate Governance Code is published on the website of the Serbian Chamber of Commerce (www.pks.rs-ventricular services, corporate governance) as well as on the Bank's website
(www.kombank.com/korporativno-upravljanje).
Last year the corporate governance was challenging for the Bank - it was marked by the change at the head of the Bank, resignation of the former CEO and Chairperson of the Board in mid-year. One of the main tasks of the new management is preparing for the privatization of the Bank, which will be assisted by adoption of the new organizational chart in order to operate more efficiently, by strengthening KB Group and by being more outspoken towards the media.

8. IMPORTANT EVENTS AFTER FISCAL YEAR-END

Two General Meeting of Bank's Shareholders were held from January 1, 2016 to the end of February 2016.

- Regular General Meeting of Bank's Shareholders was held on January 22, 2016.

  The following decisions were adopted on the session: Information related to Article 77 of the Law on Banks and Report in accordance with Article 78 of the Law on Banks;
- Extraordinary General Meeting of Bank's Shareholders held on 27 January 2016. The following decision was adopted at this session: The decision on release from duty and appointment of a member and Chairman of the Board of Directors of Komercijalna Banka ad Beograd
- In March 2016, the Bank has applied to the EBRD for the early repayment of credit lines in use in the amount of EUR 17.1 million, while signing a new credit line in the amount of EUR 30 million under favourable terms at the same time, which will all be fully implemented by the end April 2016.

Description of the events after the end of the financial year is presented in item 41. Note to the Financial Statements for 2015.

9. PLAN OF FUTURE DEVELOPMENT OF THE BANK

In the current year we continued the practice of the three-year development plan of the Bank while maintaining a "roll-over" principle, or a detailed planning of objectives for the first year and indicative projections for the next two years, while retaining the primary focus and direction. Planning of the Bank's objectives was carried out while respecting the actual occurrences in the Bank's environment. When setting up the basic strategic goals for the next period, focus is placed on the stable and sustainable business, primarily through the following:

- Defence of interest margin,
- Raising the efficiency and
- Maintaining loan portfolio quality more than focusing on growth.

As an important and decisive factor for the future development of the Bank is the beginning of the privatization process. In relation to this process the management determination is to consolidate the existing loan portfolio so that the Bank would have a better starting position for future business.
Mission and long-term commitment of the Bank in the coming period remain the same, the Bank is and will continue to be:

- The leading Serbian bank holding a regional presence.
- Universal bank with an equal focus on corporate and retail segment.

In addition, in these times, there is a significant role of the Bank in mitigating the effects of the crisis for its customers, and supporting, within its capabilities, or in other words not at the expense of its shareholders, all the measures aimed at the recovery of Serbian economy.

We can define the Bank's strategic goals as:

- Maintaining of business stability and reputation
- Increasing the Bank's value before the privatisation
- Sustainable business and profitability growth

The principles which guided the Bank when setting goals for the future are the following :

- Stability and long-term business sustainability and value for shareholders.
- Caution.
- Conservative approach.

The strategic objectives of the Bank and the expected macro situation and the environment, define business goals and priorities of the Bank for the next period:

1. The defence and the "massification" of the loan portfolio and adequate cover the risks in business.
2. Optimisation of property portfolio
3. Active management of the NPL portfolio.
4. Increase of the customer base through raising network efficiency and sales promotion.
5. Improvement of the existing and introduction of new products through digitization project.
6. Strengthening the regional position.

Plan	*2016*	*2017*	*2018*
Real growth of ban.sector	*2,5%*	*5,1%*	*5,3%*
Targeted market share of KB	*≈13%*	*≈13%*	*≈13%*
KB growth (ex.rate effect incl.)	*1,2%*	*3,2%*	*4,7%*
ROE on KB's shared captial	*12,9%*	*16,7%*	*22,1%*
ROE on KB's total capital	*8,1%*	*9,9%*	*12,2%*
ROA KB	*1,3%*	*1,7%*	*2,1%*

10. ACHIEVEMENT OF THE BANK'S PLAN FOR 2015

10.1. Achievement of Balance Sheet Projections for 2015

No.	ASSET POSITION	ACHIEVED IN 2015	PLAN FOR 201.	INDICES (3:4)*100
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash and cash equivalents	36.228	32.888	110,2
2.	Deposits with the Central Bank and securities that can be refinanced with CB	36.953	50.412	73,3
3.	Interest, fees and sale receivables	1.808	2.480	72,9
4.	**Loans and deposits to customers**	**165.542**	**194.796**	**85,0**
4.1.	Corporate	89.204	107.500	83,0
4.2.	Retail	70.785	75.998	93,1
4.3.	Banks	5.553	11.298	49,2
5.	Securities	128.024	95.825	133,6
6.	Shares (equities)	6.408	6.092	105,2
7.	Other lending	2.472	2.837	87,1
8.	Fixed assets and investment property	8.884	7.494	118,5
9.	Other assets	5.538	6.973	79,4
10.	**TOATAL ASSETS (from 1 to 9)**	**391.857**	**399.797**	**98,0**

- Balance of cash and cash equivalents exceeded planned value as a result of increased liquidity.
- Deposits and securities at CB reduced due to changes in policy of mandatory reserves (higher allocation in dinars), which in turn resulted in the lower amount of foreign currency required reserve allocations. At year-end, the investment in repo securities and surplus liquidity amounted to RSD 6.2 billion (RSD 5.5 billion in projection).
- Interest and fees receivables considerably decreased as a result of the impairment provisions.
- Corporate loans were achieved at a lower level than planned due to a decrease in demand of quality customers, prepayments, as well as a significant loan impairment provision.
- Loans and advances to banks decreased due to negative interest rates, while retail lending in the part of residential, agricultural and micro-loans to customers decreased compared to the planned values.
- The lack of growth in the loan portfolio resulted in an increase of investments in securities.
- Due to reduced transfer of immovable property, acquired through collection of receivables, into the investment property, fixed assets and investment property was less than planned.
- Other assets is achieved at a lower level than planned as a result of the reduction in value of assets acquired through collection of receivables on the basis of provisions in the amount of RSD 465 million.

No.	LIABILITIES POSITION	ACHIEVED IN 2015	PLAN FOR 2015	INDICES (3:4)*100
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	**Deposits**	**289.463**	**277.456**	**104,3**
1.1.	Corporate	55.504	50.816	109,2
1.1.	Retail	218.837	218.466	100,2
1.2.	Banks	15.122	8.174	185,0
2.	Credit lines	25.134	35.755	70,3
3.	Provisions	2.109	1.551	136,0
4.	Other liabilities	13.694	13.806	99,2
5.	**TOTAL LIABILITIES (1 to 4)**	**330.400**	**328.568**	**100,6**
6.	Share capital	40.035	40.035	100,0
7.	Reserves from profit and non-allocated profit	21.422	31.194	68,7
8.	**TOTAL CAPITAL(6+7)**	**61.457**	**71.229**	**86,3**
9.	**TOTAL LIABILITIES (5+8)**	**391.857**	**399.797**	**98,0**

- Corporate deposits have been achieved over the planned values due to the growth of transaction deposits.
- The growth of bank deposits resulted from the absence of withdrawal of deposits of other financial institutions (Privatization Agency), while retail deposits achieved somewhat above the planned amount, despite the continuing downward trend in interest rates on foreign currency savings deposits.
- 2015 planned withdrawal of credit lines was not implemented.
- 2015 provisions recorded growth arising from court disputes (Vektra M, Republika Srbija, Inex Interexport).
- Total capital was less than planned due to booked loan impairment provisions in the current year.

10.2. Achievement of 2015 Income Statement Plan

(RSD million)

No.	POSITION	ACHIEVED IN 2015	PLAN FOR 2015	INDICES (3:4)*100
1	2	3	4	5
1.1.	Interest income	18.856	20.677	91,2
1.2.	Interest expenses	(5.326)	(7.152)	74,5
1.	**Net interest income (1.1.-1.2)**	**13.530**	**13.525**	**100,0**
2.1.	Fees and commission income	6.004	5.811	103,3
2.2.	Fees and commission expenses	(1.104)	(1.109)	99,5
2.	**Net fees and commission income (2.1. -2.2.)**	**4.900**	**4.702**	**104,2**
3.	Net rate of exchange differences and change in value (the FX clause)	(13)	100	
4.	Net expenses from indirect loan write-offs and provisions	(13.009)	(3.200)	406,5
5.	Other operating income	522	492	106,1
6.	Operating and other expenses	(12.345)	(10.869)	113,6
7.	**PROFIT FROM REGULAR OPERATION BEFORE TAX**	**(6.414)**	**4.750**	

- Lower realized interest income were offset by reduced interest expense, which, in turn, generated a result of lower interest rates on FX savings and corporate deposits, so the underlying net income was generated at the planned level.
- Booked impairment provisions were not the result of a significant increase in credit risk, but of more conservative valuation of NPL portfolio. Coverage of NPL by impairment provision increased from 48.1% in 2014 to 72.1% at the end of the current year.
- Operating expenses were generated within the planned amount, while other expenses were significantly higher compared to the planned size, primarily as a result of generated expenditures for litigations (RSD 1.0 billion) and expenses arising from the adjustment of interest and fees from previous years (RSD 304 million).
- The loss of RSD 6.4 billion was lower than level of allocated reserves by the end of the year, which amounted to RSD 7.2 billion.