KOMERCIJALNA BANKA A.D., BEOGRAD

Financial Statements
Year Ended December 31, 2014
and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Komercijalna banka A.D., Beograd (hereinafter: the "Bank"), enclosed on pages 2 to 93, which comprise the balance sheet as of December 31, 2014 and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as per the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as per the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Belgrade, February 27, 2015

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

BALANCE SHEET
As of December 31, 2014
(Thousands of RSD)

	Note	2014	2013	2012
ASSETS				
Cash and cash funds held with the central bank	19	68,547,389	70,934,839	65,480,687
Financial assets at fair value through profit and loss, held for trading	20	121,634	115,319	212,690
Financial assets available for sale	21	95,481,249	56,885,285	41,085,776
Financial assets held to maturity	22	51,442	149,900	349,807
Loans and receivables due from banks and other financial institutions	23	34,737,605	35,247,935	22,566,291
Loans and receivables due from customers	24	185,377,035	177,560,058	176,904,911
Investments in subsidiaries	25	5,480,888	5,480,888	5,480,888
Intangible assets	26	405,774	537,445	600,438
Property, plant and equipment	27	6,329,077	6,577,670	5,690,613
Investment property	28	2,581,144	1,808,554	1,726,233
Current tax assets	29	73,835	712,700	12,784
Deferred tax assets	30	-	-	4,896
Non-current assets held for sale and assets from discontinued operations	31	84,227	71,630	78,763
Other assets	32	6,990,225	6,704,096	3,190,132
Total assets		406,261,524	362,786,319	323,384,909
LIABILITIES AND EQUITY				
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	23,743,018	21,058,542	13,343,870
Deposits and other liabilities due to customers	34	301,954,911	266,020,289	240,055,122
Subordinated liabilities	35	6,036,680	5,711,409	5,654,932
Provisions	36	1,640,595	765,132	2,331,760
Deferred tax liabilities	18.3; 30.2	150,407	10,156	-
Other liabilities	37	3,189,109	4,258,573	2,132,665
Total liabilities		336,714,720	297,824,101	263,518,349
Equity	38			
Issued capital and share premium		40,034,550	40,034,550	40,034,550
Retained earnings		6,755,855	6,687,971	4,185,812
Reserves		22,756,399	18,239,697	15,646,198
Total equity attributable to the owners of the Bank		69,546,804	64,962,218	59,866,560
Total liabilities and equity		406,261,524	362,786,319	323,384,909

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on February 27, 2015.

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

Snežana Pejčić
Head of Accounting

Ivica Smolić
Executive Board Chairman

INCOME STATEMENT
Year Ended December 31, 2014
(Thousands of RSD)

	Note	2014	2013
Interest income	8	21,224,379	22,023,774
Interest expenses	8	(7,925,793)	(9,094,536)
Net interest income		13,298,586	12,929,238
Fee and commission income	9	5,677,040	5,493,211
Fee and commission expenses	9	(959,283)	(928,063)
Net fee and commission income		4,717,757	4,565,148
Net gains on the financial assets held for trading	10	6,076	22,342
Net gains on the financial assets available for sale	11	51,282	1,738
Net foreign exchange losses and negative currency clause effects	12	(205,943)	(48,733)
Other operating income	13	569,191	1,123,546
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	14	(2,725,389)	(3,220,075)
Total operating income		15,711,560	15,373,204
Staff costs	15	(4,211,489)	(4,262,123)
Depreciation and amortization charge	16	(844,632)	(792,648)
Other expenses	17	(5,897,850)	(5,730,058)
Profit before taxes		4,757,589	4,588,375
Gains on created deferred tax assets and decrease in deferred tax liabilities	18.1	47,547	87,950
Losses decrease in deferred tax assets and created deferred tax liabilities	18.1	(19,559)	-
Profit for the year		4,785,577	4,676,325
Earnings per share			
Basic earnings per share		0.253	0.468
Diluted earnings per share		0.253	0.242

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

Snežana Pejčić
Head of Accounting

Ivica Smolić
Executive Board Chairman

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2014
(Thousands of RSD)

	Note	2014	2013
Profit for the year		4,785,577	4,676,325
Other comprehensive income			
Increase/(decrease) in revaluation reserves in respect of intangible assets, property, plant and equipment	38.2	(3,472)	686,680
Actuarial losses	36; 38.2	(27,779)	-
Net increase from the fair value adjustment of equity investments and securities available for sale	38.2	611,341	169,859
Losses from taxes related to the other comprehensive income	38.2	(168,238)	(103,002)
Other comprehensive income for the year, net of taxes		411,852	753,537
Total comprehensive income for the year		5,197,429	5,429,862

Notes on the following pages
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Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić
Head of Accounting

Ivica Smolić
Executive Board Chairman

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2014
(Thousands of RSD)

	Issued Capital	Share Premium	Revaluation Reserves	Reserves from Profit and Other Reserves	Retained Earnings/ Accumulated Losses	Total
Balance at January 1, 2013	17,191,466	22,843,084	860,758	14,785,440	4,185,812	59,866,560
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4,676,325	4,676,325
Transfer of 2012 retained earnings portion to legal reserves	-	-	-	1,850,000	(1,850,000)	-
	-	-	-	1,850,000	2,826,325	4,676,325
Other comprehensive income for the year, net of income tax						
Change in the value of properties as per revaluation performed by an independent appraiser	-	-	686,680	-	-	686,680
Gains on realized reserves (depreciation effects)	-	-	(10,038)	-	10,038	-
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	169,859	-	-	169,859
Effect of increase in deferred tax liabilities in respect of securities available for sale and equity investments	-	-	(103,002)	-	-	(103,002)
Effect of deferred tax liabilities in respect of increase in property and equipment due to revaluation	-	-	743,499	-	10,038	753,537
Other comprehensive income for the year, net of tax	-	-	743,499	1,850,000	2,836,363	5,429,862
Transactions with equity holders, recognized directly in equity						
Payments from and to equity holders						
Payment of dividends for preferred shares	-	-	-	-	(37,351)	(37,351)
Employee share in profit	-	-	-	-	(296,853)	(296,853)
Balance at December 31, 2013	17,191,466	22,843,084	1,604,257	16,635,440	6,687,971	64,962,218

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

STATEMENT OF CHANGES IN EQUITY (Continued)
Year Ended December 31, 2014
(Thousands of RSD)

	Issued Capital	Share Premium	Revaluation Reserves	Reserves from Profit and Other Reserves	Retained Earnings/ Accumulated Losses	Total
Balance at January 1, 2014	17,191,466	22,843,084	1,604,257	16,635,440	6,687,971	64,962,218
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4,785,577	4,785,577
Transfer of 2013 retained earnings portion to legal reserves	-	-	-	4,000,000	(4,000,000)	-
	-	-	-	4,000,000	785,577	4,785,577
Other comprehensive income for the year, net of income tax						
Decrease in revaluation reserves from property, plant and equipment	-	-	(3,472)	-	-	(3,472)
Gains from the realized reserves (depreciation/amortization effect)	-	-	(27,283)	-	27,283	-
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	611,341	-	-	611,341
Actuarial losses (Note 36)	-	-	(27,779)	-	-	(27,779)
Tax effects of other comprehensive income	-	-	(168,238)	-	-	(168,238)
Other comprehensive income for the year, net of tax	-	-	384,569	-	27,283	411,852
Total comprehensive income for the year	-	-	384,569	4,000,000	812,860	5,197,429
Transactions with equity holders, recognized directly in equity						
Payments from and to equity holders						
Payment of dividends for preferred shares	-	-	-	-	(604,620)	(604,620)
Employee share in profit	-	-	-	-	(7,775)	(7,775)
	-	-	-	-	(612,395)	(612,395)
Other						
Actuarial gains from prior years (Note 38)	-	-	132,132	-	(132,132)	-
Other	-	-	1	-	(449)	(448)
			132,133	-	(132,581)	(448)
Balance at December 31, 2014	17,191,466	22,843,084	2,120,959	20,635,440	6,755,855	69,546,804

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

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

Snežana Pejčić
Head of Accounting

Ivica Smolić
Executive Board Chairman

STATEMENT OF CASH FLOWS
Year Ended December 31, 2014
(Thousands of RSD)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**26,173,313**	**26,515,177**
Interest receipts	20,196,420	20,455,890
Fee and commission receipts	5,661,699	5,493,457
Receipts of other operating income	204,599	209,753
Dividend receipts and profit sharing	110,595	356,077
Cash used in operating activities	**(19,051,974)**	**(19,690,614)**
Interest payments	(8,072,315)	(8,948,540)
Fee and commission payments	(960,358)	(929,932)
Payments to, and on behalf of employees	(4,003,672)	(4,318,918)
Taxes, contributions and other duties paid	(798,934)	(927,771)
Payments for other operating expenses	(5,216,695)	(4,565,453)
Net cash inflows from operating activities prior to changes in loans and deposits	**7,121,339**	**6,824,563**
Decrease in loans and increase in deposits received and other liabilities	**32,605,699**	**23,508,143**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	5,760,091	-
Decrease in financial assets initially recognized at fair value through profit and loss, held for trading	-	1,850,488
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	26,845,608	21,657,655
Increase in loans and decrease in deposits received and other liabilities	**(4,633,940)**	**(24,137,331)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	-	(24,137,331)
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	(4,633,940)	-
Net cash generated by operating activities before income taxes	**35,093,098**	**6,195,375**
Income taxes paid	-	(699,916)
Dividends paid	(485,151)	(269,195)
Net cash generated by operating activities	**34,607,947**	**5,226,264**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	**18,126,491**	**14,283,199**
Proceeds from investment securities	18,117,937	14,271,063
Proceeds from the sales of intangible assets, property, plant and equipment	8,554	12,136
Cash used in investing activities	**(49,181,554)**	**(32,336,193)**
Cash used for investment securities	(48,706,989)	(31,584,013)
Cash used for investments in subsidiaries and associates and joint ventures	-	(976)
Cash used for the purchases of intangible assets, property, plant and equipment	(474,565)	(751,204)
Net cash used in investing activities	**(31,055,063)**	**(18,052,994)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**208,836,248**	**219,234,820**
Inflows from the borrowings	208,836,248	219,234,820
Cash used in financing activities	**(208,645,771)**	**(206,115,732)**
Cash used in the repayment of borrowings	(208,645,771)	(206,115,732)
Net cash generated by financing activities	**190,477**	**13,119,088**
TOTAL CASH INFLOWS	285,741,751	283,541,339
TOTAL CASH OUTFLOWS	(281,998,390)	(283,248,981)
NET CASH INCREASE	**3,743,361**	**292,358**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**40,297,749**	**39,900,993**
FOREIGN EXCHANGE GAINS	1,201,216	936,537
FOREIGN EXCHANGE LOSSES	(82,149)	(832,139)
CASH AND CASH EQUIVALENTS, END OF YEAR	**45,160,177**	**40,297,749**

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

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

Snežana Pejčić
Head of Accounting

Ivica Smolić
Executive Board Chairman

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

1. BANK'S ESTABLISHMENT AND ACTIVITY

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

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

Republic of Serbia	41.74%
EBRD, London	24.43%

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

As of December 31, 2014, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 24 branches and 220 sub-branches in the territory of the Republic of Serbia (December 31, 2013: 24 branches and 233 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2014, the Bank had 2,906 employees (December 31, 2013: 2,966 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred as: the "Law", Official Gazette of the Republic of Serbia no. 63/2013). As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance and which were in effect as at December 31, 2013.

The amendments to IAS, as well as the newly issued IFRS and the related interpretations issued by the IASB and the IFRIC, in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (the "Ministry") on October 5, 2010 and published the Official Gazette of the Republic of Serbia no. 77/2010. The Ministry's Decision dated March 13, 2014 adopted the translation of the Conceptual Framework for Financial Reporting and (the "Conceptual Framework," adopted by the IASB in September 2010, which supplants the Framework for Preparation and Presentation of the Financial Statements) and basic texts of IAS and IFRS ("Decision on Adoption of the Translations of the Conceptual Framework for Financial Reporting and Basic Texts of International Accounting Standards and International Financial Reporting Standards," published the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations"), encompassing amendments to IAS and new IFRS and related interpretations issued by IASB and IFRIC/effective as of December 31, 2013. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

Standards and interpretations issued that came into effect in the current period pursuant to the Decision on Adoption of the Translations are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

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

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

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

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

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

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

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

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 “Intangible Assets” (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);

- Amendments to IFRS 2 “Share-Based Payment”: Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments IFRIC 9 “Reassessment of Embedded Derivatives” effective for annual periods beginning on or after July 1, 2009 and IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);

- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods beginning on or after July 1, 2009);

- “Conceptual Framework for Financial Reporting 2010” being amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);

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

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

- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);

- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);

- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);

- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);

- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);

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

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

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);

- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);

- Amendments to various standards "Improvements to IFRSs (2009-2011 Cycle)" issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013); and

- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014).

2.3. Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 "Financial Instruments" and subsequent amendments, supplanting the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to classification and measurement of financial assets. This standard eliminates the categories existing under IAS 39 – assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

In accordance with IFRS 9, financial assets shall be classified in one of the following two categories upon initial recognition: financial assets at amortized cost or financial assets at fair value. A financial asset shall be measured at amortized cost if the following two criteria are met: financial assets relate to the business model whose objective is to collect the contractual cash flows and the contractual terms provide the basis for collection at certain future dates of cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets shall be measured at fair value. Gains and losses on the fair value measurement of financial assets shall be recognized in the profit and loss statement, except for investments in equity instruments which are not traded, where IFRS 9 allows at initial recognition a subsequently irreversible choice to recognize changes in fair value within other gains and losses in the statement of comprehensive income. An amount recognized in such a manner within the statement of comprehensive income cannot subsequently be recognized in profit and loss.

Given the nature of the Bank's operations, the adoption of the standard is expected to have a significant impact on the Bank's financial statements.

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016);

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

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

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

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

- IFRS 15 “Revenue from Contracts with Customers,” defining the framework for revenue recognition. IFRS 15 supplants IAS 18 “Revenue,” IAS 11 “Construction Contracts,” IFRIC 13 “Customer Loyalty Programs,” IFRIC 15 “Agreements for the Construction of Real Estate” and IFRIC 18 “Transfers of Assets from Customers.” IFRS 15 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);

- IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1, 2014);

- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014); and

- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014).

2.4. Going Concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation

The Bank has control over the following legal entities, which are not consolidated into these financial statements:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into Dinars at the spot middle exchange rates at the date of the transactions.

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

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

		In RSD
	2014	**2013**
USD	99.4641	83.1282
EUR	120.9583	114.6421
CHF	100.5472	93.5472
JPY	0.830986	0.791399

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on investment securities available for sale.

Interest income and expenses on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and Commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Net Trading Income

Net trading income comprises gains less losses, related to trading assets and liabilities, and includes all realized and unrealized fair value changes and foreign exchange differences.

(f) Net income from Other Financial Instruments at Fair Value through Profit or Loss

Net income from other financial instruments at fair value through profit or loss, relates to financial assets and liabilities designated at fair value through profit or loss and includes all realized and unrealized fair value changes.

g) Dividends

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

(h) Operating and Finance Lease Payments

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

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

(i) Tax Expenses

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

(i) Current Income Tax

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

(ii) Deferred Income Tax

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Tax Expenses (Continued)

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under “other operating expenses”.

(j) Financial Assets and Liabilities

(i) Recognition

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

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

(ii) Classification

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

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

(iii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any impairment.

(vi) Fair Value Measurement

The fair values stated for financial instruments are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vii) Identification and Measurement of Impairment

At reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

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

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

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

The Bank writes off certain loans and receivables and investment securities when they are determined to be uncollectible (see note 4(b)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash and Cash Equivalents

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

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

(l) Trading Assets and Liabilities

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

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

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

Derivatives

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

(m) Loans and Receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investment Securities

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

(i) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

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

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

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

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

Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investment Securities (Continued)

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

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

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

(o) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost.

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

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

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

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

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

(ii) Subsequent Costs

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Property and Equipment (Continued)

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25%
Furniture and other equipment	5 – 15	10%-15.5%
Leasehold improvements	1 – 11	4.25%-86.2%

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

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

(p) Intangible Assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 5 years and amortization rates used range between 14.29% and 33.34%.

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

(q) Investment Property

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

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

For subsequent measurement of investment property the Bank uses the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5%. Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Leases

The Bank is a lessee based on leasing agreements. The Bank classifies leases as financial leasing when the lease agreement stipulates that the basic risks and benefits of ownership over the leased assets are transferred to the lessee. All other leasing agreements are classified as operating leases.

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

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

(s) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(t) Deposits, Borrowings and Subordinated Liabilities

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(v) Employment Benefits

In accordance with regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2014 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

(w) Financial Guarantees

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

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

(x) Capital and Reserves

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

The Bank’s equity is comprised of funds invested by the Bank’s founders in pecuniary form. A founder cannot withdraw funds invested in the Bank’s equity.

(y) Earnings per Share

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Segment Reporting

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

4. RISK MANAGEMENT

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

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

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

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

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

Risk Management System

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

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

Risk Management Strategy sets out:

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

4. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

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

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

Policies for managing certain risk types define the following:

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

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the Bank in the risk management system.

Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

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

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Bank is exposed to. Executive Board reports to the Board of Directors on implementation efficiency of defined management risk procedures.

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

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

The Credit Committee decides on loan requests in accordance with the Bank's internal acts, it analyzes the Bank's exposure to credit, interest and currency risk, it analyzes the credit portfolio and implements results of internal audit under the Committee's jurisdiction, and also suggests adequate measures to the Executive Board.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Collections Committee is authorized and responsible for managing risk weighted placements; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors through its limits of authorization.

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

The Treasury is responsible for managing assets and liquidity, the Bank's assets and liabilities, their overall financial structure, and is primarily responsible for the Bank's liquidity risk, interest rate risk and foreign currency risk.

The Internal Audit Division is responsible for continued monitoring of implementation of risk management policies and procedures, and tests the adequacy of procedures and the Bank's compliance thereto. Internal Audit reports its findings and recommendations to the Audit Committee and the Board of Directors.

The Compliance Control Division is obligated to identify and assess compliance risks at least annually and propose risk management plans, whereof it prepares a report and submits it to the Executive Board and Board for Monitoring of the Bank's operation.

Risk Management Process

The Bank regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks.

For all risks identified the Bank determines their significance based on as comprehensive assessment of risks in the Bank's particular operations, products, activities and processes.

Risk alleviation or mitigation involves risk diversification, transfer, minimization and or avoidance; the Bank performs risk mitigation in accordance with risk profile and risk appetite.

Risk monitoring and control is based on limits that are set by the Bank. They in turn depend on business strategy and the business environment, as well as on the level of risk that the Bank is ready to accept.

Risk management reports are regularly submitted to: the Bank's Board of Directors, Executive Board, Audit Committee, ALCO and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the Bank's risks.

Risk Types

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

4.1. Credit Risk

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

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

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

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level: for loans within defined limits decisions are made by the branch credit committees, although in certain cases approval of the risk management organizational unit is required. Central Credit Committee decides on the loans in excess of the defined limits (depending on the type of client) with prior opinion of the risk management organizational unit. The Executive Board and Board of Directors make decisions depending on the exposure levels.

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

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

Credit Risk Management

According to the volume, type and complexity of its operations, the Bank has organized the credit risk management process and clearly delineated employee responsibilities in all stages of the process.

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Bank as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy. On the other hand, the Bank does not make high-risk investments such as investments in highly profitable projects with significant risk levels.

The basic principles of credit risk management are as follows:

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

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, both on a daily and monthly bases, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates write-off of the remaining receivables.

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

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system.

Downgrade Risk

The quality of the Bank's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 17 subcategories. Different exposures to the same borrower are grouped in the same credit rating category irrespective of the specificities of different loan types.

The Bank uses varying credit rating models depending on the borrower type. Credit rating is calculated on monthly basis based on the qualitative and quantitative parameters and timely and regular liability settlement.

A low level of risk implies doing business with customers with a high credit rating (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating category 3), and a high level of risk characterizes customers with negative operating results and poor credit rating history (risk rating categories 4 and 5).

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

Risk of Change in Value of Assets

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

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

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

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

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

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

Individual Assessment

The Bank assesses impairment of each individually significant loan and considers the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Bank will be settled, ad hoc assessment of loan impairment is performed.

Group Assessment

Impairment is assessed on a group basis for loans that are not individually significant and for individually significant loans and advances, when there is no objective evidence of individual impairment. Group assessment is performed monthly within groups that are determined based on internal methodology and internal rating system. Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product.

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities.

In assessing provisions for contingent losses on off-balance sheet items, funds obtained by activating collaterals are recognized if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2014 and 2013 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum Credit Risk Exposure before Collateral or any Other Improvements

	December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net
I. Assets	**411,491,955**	**387,248,783**	**365,278,655**	**344,901,797**
Cash and cash funds held with the central bank	68,547,389	68,547,389	70,934,839	70,934,839
Loans and receivables due from banks and other financial institutions	35,106,194	34,737,605	35,573,308	35,247,935
Loans and receivables due from customers	208,462,012	185,377,035	196,390,640	177,560,058
Financial assets	95,774,547	95,654,325	57,195,947	57,150,504
Other assets	3,601,813	2,932,429	5,183,921	4,008,461
II. Off-balance sheet items	**30,165,789**	**29,597,365**	**30,882,511**	**30,408,862**
Payment guarantees (Note 39.1)	4,767,131	4,626,118	7,357,476	7,291,000
Performance bonds (Note 39.1)	7,883,510	7,734,385	5,787,610	5,661,141
Irrevocable commitments	16,715,960	16,715,960	16,830,341	16,830,341
Other items	799,188	520,902	907,084	626,380
Total (I+II)	**441,657,744**	**416,846,148**	**396,161,166**	**375,310,659**

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
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4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

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

December 31, 2014

	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	2,313,323	2,313,323	27,533,227
Loans matured and not provided for	-	-	-	-	-	-	1,557,306	1,557,306	7,204,378
Group-level impaired	37,033,132	15,133,016	5,307,696	7,264,505	6,248,660	70,987,009	95,147,574	166,134,583	368,589
Individually impaired	760,253	-	94,069	-	995,964	1,850,286	36,606,514	38,456,800	-
Total	**37,793,385**	**15,133,016**	**5,401,765**	**7,264,505**	**7,244,624**	**72,837,295**	**135,624,717**	**208,462,012**	**35,106,194**
Impairment allowance	**543,326**	**903,607**	**436,472**	**720,048**	**1,070,353**	**3,673,807**	**19,411,170**	**23,084,977**	**368,589**
Group-level impairment allowance	440,780	903,607	413,477	720,048	883,455	3,361,367	8,733,842	12,095,209	368,589
Individual impairment allowance	102,546	-	22,995	-	186,899	312,440	10,677,328	10,989,768	-
Net carrying value	**37,250,059**	**14,229,409**	**4,965,292**	**6,544,457**	**6,174,271**	**69,163,489**	**116,213,547**	**185,377,035**	**34,737,605**

	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	9,308,456	9,308,456	34,239,484
Loans matured and not provided for	-	-	-	-	-	-	10,872,773	10,872,773	1,008,450
Group-level impaired	33,194,871	12,698,570	4,200,215	7,934,218	5,489,608	63,517,482	77,823,250	141,340,732	325,374
Individually impaired	503,566	-	37,487	-	962,271	1,503,324	33,365,355	34,868,679	-
Total	**33,698,436**	**12,698,570**	**4,237,702**	**7,934,218**	**6,451,880**	**65,020,806**	**131,369,833**	**196,390,640**	**35,573,308**
Impairment allowance	**467,808**	**712,610**	**319,152**	**636,461**	**990,703**	**3,126,734**	**15,703,847**	**18,830,581**	**325,374**
Group-level impairment allowance	329,772	712,610	306,438	636,461	855,235	2,840,516	9,583,119	12,423,635	325,374
Individual impairment allowance	138,036	-	12,714	-	135,468	286,218	6,120,728	6,406,946	-
Net carrying value	**33,230,629**	**11,985,960**	**3,918,550**	**7,297,757**	**5,461,176**	**61,894,072**	**115,665,986**	**177,560,058**	**35,247,935**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

Impaired Loans and Receivables

Impaired loans and receivables are those for which the Bank has determined the existence of objective evidence of impairment and does not expect them to be collected in full amounts of principal and interest matured pursuant to the relevant loan agreements. Loans and receivables are impaired on both an individual and a group basis.

Receivables Matured but not Impaired

Loans and receivables matured but not impaired represent those loans and receivables where there is default in settling liabilities for contractually agreed interest or principal outstanding (the report shows the entire receivable amount as matured for any matured portion of principal or interest). The Bank believes that it is not appropriate to make impairment allowance for such receivables given that there is certainty of collection by the Bank.

Receivables not Matured and not Impaired

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

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.1. Maximum Credit Risk Exposure (Continued)

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

									December 31, 2014
	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	2,313,323	2,313,323	27,510,292
Medium (IR 3)	-	-	-	-	-	-	-	-	22,935
Total	**-**	**-**	**-**	**-**	**-**	**-**	**2,313,323**	**2,313,323**	**27,533,227**

									December 31, 2013
	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	5,229,621	5,229,621	34,204,200
Medium (IR 3)	-	-	-	-	-	-	4,078,835	4,078,835	35,284
Total	**-**	**-**	**-**	**-**	**-**	**-**	**9,308,456**	**9,308,456**	**34,239,484**

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

									December 31, 2014
	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	1,375,310	1,375,310	7,204,378
31 - 90 days past due	-	-	-	-	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-	181,996	181,996	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**1,557,306**	**1,557,306**	**7,204,378**

									December 31, 2013
	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	10,194,103	10,194,103	1,008,450
31 - 90 days past due	-	-	-	-	-	-	73,340	73,340	-
Over 90 days past due	-	-	-	-	-	-	605,330	605,330	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**10,872,773**	**10,872,773**	**1,008,450**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.2. Loans with Altered Initially Agreed Terms

Loans with altered initially agreed terms are loans rescheduled and/or restructured due to the borrowers' difficulties in servicing liabilities as these fall due. Considering such difficulties, the Bank decides on altering the terms and deadlines stipulated by loan agreements giving the borrowers the opportunity to discharge liabilities more easily.

Rescheduling of receivables is performed for debtors with currently mismatching cash inflows and outflows, yet whose financial indicators have not deteriorates suggesting that the debtor will be able to settle the rescheduled liabilities according to the subsequently agreed repayment terms. Receivables are rescheduled if due from debtors up to 90 days in default, most commonly per individual loan subaccount, i.e. not including all the receivables due from the same debtor (not all loan subaccounts).

Restructuring is performed for loans due from debtors with significant problems in business where financial indicators are substantially deteriorating. Upon restructuring:

- All balance sheet receivables due from the debtor or a greater portion thereof are replaced;
- Terms whereunder the relevant receivable was approved are essentially altered (which particularly entails extension of the period for repayment of principal or interest, decrease in interest rate applied or the amount receivable and other modifications of terms which are to facilitate the position of a debtor);
- Adoption of an adequate financial consolidation program is mandatory.

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.2. Loans with Altered Initially Agreed Terms (Continued)

The following table presents total amount of loans with altered initially agreed terms as of December 31,2014 and 2013. The stated values are presented in gross and net carrying amounts (after impairment effects).

Loans with altered initially agreed terms, gross

	Rescheduled				Restructured			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Housing loans	596,943	556,173	568,206	532,674	145,546	137,391	84,024	71,652
Cash loans	224,193	210,710	198,795	188,299	40,721	28,648	43,887	32,549
Agricultural loans	64,211	55,919	137,523	123,176	32,673	29,229	41,370	36,647
Other loans	12,407	11,953	19,894	19,112	506	375	121	-
Micro businesses	200,575	188,381	256,623	215,083	401,880	341,390	428,898	389,271
Total retail	**1,098,329**	**1,023,136**	**1,181,041**	**1,078,344**	**621,326**	**537,033**	**598,300**	**530,119**
Corporate customers	23,582,662	23,058,599	26,507,514	26,076,310	16,995,750	12,581,987	12,004,182	7,412,417
Total	**24,680,991**	**24,081,735**	**27,688,555**	**27,154,654**	**17,617,076**	**13,119,020**	**12,602,482**	**7,942,536**

Credit quality of loans and receivables (gross)

	December 31, 2014			December 31, 2013		
	Loans and receivables	Rescheduled and restructured receivables	%	Loans and receivables	Rescheduled and restructured receivables	%
Not matured and not impaired	2,313,323	-	-	9,308,456	-	-
Matured but not impaired	1,557,306	-	-	10,872,773	-	-
Group-level impaired	166,134,583	23,282,417	14.01%	141,340,732	22,687,573	16.05%
Individually impaired	38,456,800	19,015,650	49.45%	34,868,679	17,603,464	50.49%
Total	**208,462,012**	**42,298,067**	**20.29%**	**196,390,640**	**40,291,037**	**20.52%**
Impairment allowance	**23,084,977**	**5,097,313**	**22.08%**	**18,830,581**	**5,193,847**	**27.58%**
Group-level impairment allowance	12,095,209	401,437	3.32%	12,423,635	2,349,655	18.91%
Individual impairment allowance	10,989,768	4,695,876	42.73%	6,406,946	2,844,192	44.39%
Securitized with collaterals	**180,511,165**	**35,538,202**	**19.69%**	**157,006,188**	**30,628,887**	**19.51%**

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December 31, 2014
All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.3. Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographic regions, single entities or groups of related entities, collaterals…). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification.

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

	Loans and receivables				Off-balance sheet items			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Finance and insurance sector	**10,643,439**	**10,537,316**	**10,034,522**	**9,891,305**	**292,092**	**292,091**	**897,031**	**897,031**
Corporate and public company sector	**119,316,219**	**108,947,880**	**118,423,903**	**105,938,463**	**19,936,661**	**19,373,087**	**20,120,473**	**19,649,427**
Agriculture	6,573,945	6,306,710	6,212,209	5,877,157	558,384	291,839	774,549	513,051
Processing industry	52,531,430	46,191,776	46,072,282	38,981,248	4,025,921	3,978,542	4,577,951	4,504,435
Power industry	6,329,773	6,329,319	8,783,688	8,783,265	921,693	921,592	781,666	781,586
Construction industry	4,738,069	4,348,898	4,849,182	4,307,481	7,488,399	7,376,936	4,325,512	4,274,384
Wholesale and retail	35,253,379	32,288,190	37,083,838	33,631,082	5,238,480	5,118,562	8,075,830	8,008,356
Services industries	11,572,132	11,290,458	12,858,509	11,921,957	962,197	950,536	823,166	813,958
Real estate business	2,317,491	2,192,529	2,564,195	2,436,275	741,587	735,080	761,799	753,657
Entrepreneurs	**2,768,358**	**2,492,689**	**2,263,844**	**2,008,313**	**429,318**	**425,429**	**406,760**	**404,418**
Public sector	**10,943,750**	**10,912,080**	**13,555,594**	**13,525,198**	**339,888**	**338,928**	**72,843**	**72,833**
Retail sector	**65,592,670**	**62,989,218**	**58,568,927**	**56,432,896**	**8,652,116**	**8,652,116**	**8,567,239**	**8,567,239**
Non-residents	**17,215,508**	**16,870,780**	**21,183,663**	**20,882,595**	**105,098**	**105,098**	**635,722**	**635,722**
Other customers	**17,088,262**	**7,364,677**	**7,933,495**	**4,129,223**	**410,616**	**410,616**	**182,443**	**182,192**
Total	**243,568,206**	**220,114,640**	**231,963,948**	**212,807,993**	**30,165,789**	**29,597,365**	**30,882,511**	**30,408,862**

Depending on general economic trends and individual industry sector trends, the Bank diversifies investments into the industry sectors that are resistant to the impact of adverse economic trends.

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.3. Concentration Risk (Continued)

Breakdown of loans and receivables due from customers, banks and other financial institutions and commitments per geographic area is provided below:

	Loans and receivables				Off-balance sheet items			
	December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Serbia	219,294,893	196,202,331	198,460,191	179,624,778	30,046,297	29,477,873	30,230,779	29,757,132
Montenegro	156,391	154,536	570,466	564,898	1,708	1,708	1,798	1,798
Bosnia and Herzegovina	756,552	756,216	523,055	522,747	-	-	344,290	344,290
European Union	14,803,936	14,801,605	15,550,455	15,547,960	64,244	64,244	191,827	191,827
USA and Canada	398,411	135,285	620,163	400,250	45,916	45,916	108,023	108,023
Other countries	8,158,023	8,064,667	16,239,618	16,147,361	7,624	7,624	5,794	5,792
Total	**243,568,206**	**220,114,640**	**231,963,948**	**212,807,993**	**30,165,789**	**29,597,365**	**30,882,511**	**30,408,862**

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.4. Financial Assets

	December 31, 2014		December 31, 2013	
	Gross	**Net**	**Gross**	**Net**
Financial assets:	**95,774,547**	**95,654,325**	**57,195,947**	**57,150,504**
- at fair value through profit and loss, held for trading	121,634	121,634	115,577	115,319
- available for sale	95,481,744	95,481,249	56,887,797	56,885,285
- held to maturity	171,169	51,442	192,573	149,900
Changes in fair value of risk-hedged items	-	-	-	-
Receivables per derivatives designated as risk hedging instruments	-	-	-	-
Total	**95,774,547**	**95,654,325**	**57,195,947**	**57,150,504**

Financial assets at fair value through profit and loss relate to the Republic of Serbia's old foreign currency savings bonds, corporate and bank shares and investment units. These assets are measured using the methodology of adjusting to the market prices (mark to market) or internally developed valuation models (mark to model), depending on the availability of daily changing prices or whether they are subject of continuous trading.

Available-for-sale financial assets represent financial instruments which are intended to be held over an indefinite time period and which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. They mostly comprise Treasury bills and bonds issued by the Republic of Serbia, United Kingdom, local municipalities and bonds of other banks. Available-for-sale assets are initially measured at cost, and on a quarterly basis fair value thereof is determined based on the market prices for securities traded in active stock exchange (mark to market). Internally developed valuation models (mark to model) are used in instances that for certain financial instruments independent sources of market information are not available, and are based on the maturity of the security and the risk-free interest rate level.

Financial assets held to maturity entirely relate to discounted bills of exchange

4.1.5. Credit Risk Hedges (Collaterals)

For the purpose of protection against credit risk, in addition to regular monitoring of the customer business operations, the Bank also acquires security instruments (collaterals) to secure the collection of receivables and minimize credit risk. The collateral quantity and type depend on the assessed credit risk.

As a standard type of loan security instrument, the Bank demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, depending on the credit risk assessment and loan type, additional collaterals agreed upon include the following:

- for commercial loans – pledge liens instituted over movable assets and immovable property (mortgages), deposits, banking, corporate and state-issued guarantees, sureties, pledge liens instituted over securities, equity interests, receivables and livestock;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals) (Continued)

For valuation of property or pledges assigned over movable assets, the bank hires certified appraisers in order to minimize potential risk of unrealistic valuation. Property, goods, equipment and other movables pledged must be insured by an insurance company acceptable to the Bank and insurance policies must be duly endorsed in favor of the Bank.

For protection against changes in the market value of collaterals (mortgages, pledge liens, securities, etc.) the appraised collateral value is adjusted for the predefined haircut percentage dependent on the type and location of collateral, which is reviewed at least annually, o more frequently, as appropriate. This is how the bank protects itself from potential losses arising from inability to collect its receivables from collateral foreclosure.

The Bank monitors and updates the values and trends in collaterals in order to minimize the risk of unrealistic valuation, if necessary, the bank may demand additional collateral in accordance with the executed loan agreements. Collaterals represent a secondary source of collection of receivables.

The following breakdowns present the value of collaterals as their fair values, only up to the loan gross amounts (in instances of collateral values exceeding the respective loan values). When collateral values are below the respective loan gross amounts, the values of collaterals are presented.

The values of collaterals and guarantees received to reduce credit risk exposures arising from the loans extended to customers are presented in the following table:

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December 31, 2014
All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals) (Continued)

Loans and receivables due from customers secured with collaterals

	December 31, 2014					December 31, 2013				
	Properties	Deposits	Guarantees	Other collaterals	Total	Properties	Deposits	Guarantees	Other collaterals	Total
Housing loans	30,748,217	-	-	4,867,522	35,615,739	28,503,974	-	-	2,523,140	31,027,114
Cash loans	97,639	274,274	-	3,242,179	3,614,093	110,319	265,752	-	1,463,046	1,839,117
Agricultural loans	2,849,789	16,463	73,816	1,321,095	4,261,163	2,328,436	44,270	72,414	728,305	3,173,425
Other loans	19,295	50,511	-	347,213	417,019	22,505	45,837	-	596,037	664,379
Micro business	2,494,280	464,556	-	4,846,869	7,805,705	2,875,782	475,741	-	2,528,028	5,879,551
Total retail loans	**36,209,220**	**805,804**	**73,816**	**14,624,878**	**51,713,718**	**33,841,016**	**831,600**	**72,414**	**7,838,556**	**42,583,586**
Corporate loans	58,205,326	1,100,476	8,680,492	60,811,153	128,797,447	70,472,795	1,113,839	9,426,051	33,409,917	114,422,602
Total	**94,414,546**	**1,906,280**	**8,754,308**	**75,436,031**	**180,511,165**	**104,313,811**	**1,945,439**	**9,498,465**	**41,248,473**	**157,006,188**

Note: A portion of housing loans secured with mortgages assigned over real estate properties is insured with the National Corporation for Housing Loans Insurance (2014: RSD 27.4 billion; 2013: RSD 25.5 billion).

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals) (Continued)

The ratio of the loan amount to the appraised value of the property held as collateral is monitored as loan to value ratio (LTV ratio).

Breakdown of housing loans per LTV ratio spread

	December 31, 2014	December 31, 2013
Below 50%	5,301,359	4,851,190
From 50% to 70%	7,787,807	6,595,698
From 71% to 100%	14,119,316	13,661,280
From 101% to 150%	5,510,500	4,211,155
Above 150%	2,368,052	1,203,805
Other	2,706,351	3,175,308
Total exposure	**37,793,385**	**33,698,436**
Average LTV ratio	**70.07%**	**69.85%**

4.1.6. Tangible Assets Acquired in Lieu of Debt Collection

Collaterals foreclosed by the Bank in the process of loan and receivable collection are provided below:

Collaterals foreclosed

	December 31, 2014	December 31, 2013
Residential premises	204,802	279,216
Business premises	2,758,640	1,516,067
Equipment	106,469	101,805
Land and forests	155,737	71,722
Total	**3,225,648**	**1,968,810**
Accumulated depreciation	(188,336)	(141,357)
Net book value	**3,037,312**	**1,827,453**

In 2014, in the process of debt collection the bank foreclosed collaterals totaling RSD 2,313,063 thousand (2013: RSD 1,060,829 thousand).

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Bank's financial result and equity resulting from the Bank's difficulty or inability to settle its matured liabilities in instances of insufficient liquidity reserves and inability to cover for unexpected outflows and other liabilities.

The Bank operates in accordance with the basic principles of liquidity, maintaining a sufficient level of funds to cover liabilities incurred in the short term, i.e. it observes the principle of solvency by establishing the optimal financial leverage and sufficient liquidity reserves which do not compromise realization of the projected return on equity.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Liquidity risk is manifest as the mismatch of the inflow of assets on one end and the maturities of liabilities on the other, including the possibility of delays in expected inflows as well as that of unexpected outflows. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally defined limits, and monitoring of defined measures for reducing the bank's exposure to liquidity risk. Liquidity risk control involves the control at all liquidity risk management levels as well as the independent control system implemented by the bank's organizational units responsible for internal audit and compliance monitoring.

Liquidity risk reporting consists of internal and external reporting systems and is performed on a daily basis and a set schedule according to the defined system. .

The Bank's operations are reconciled daily with legally prescribed liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. The Bank also monitors compliance with the regulatory prescribed rigid/cash liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7 as the average liquidity ratio for all working days in a month.

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

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	2014	2013	2014	2013
As at December 31	2.84	3.45	2.52	3.08
Average for the period	3.29	2.73	2.88	2.43
Maximum for the period	4.40	3.89	4.09	3.39
Minimum for the period	1.70	1.69	1.51	1.50

During 2014 the Bank's liquidity ratio and cash liquidity ratio were both well above the prescribed limits.

The Bank sets internal limits, based on the internal reporting on liquidity GAP for all balance sheet components.

Compliance with last day liquidity ratio limits internally defined:

	Limits	2014	2013
GAP up to 1 month / Total assets	Max (10%)	10.93%	10.42%
Cumulative GAP up to 3 months / Total assets	Max (20%)	12.08%	6.75%

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

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

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	68,547,389	-	-	-	-	68,547,389
Loans and receivables due from banks and other financial institutions	34,501,291	-	-	236,314	-	34,737,605
Loans and receivables due from customers	35,403,685	11,911,181	48,217,308	55,461,224	34,383,637	185,377,035
Financial assets (securities)	10,804,439	9,710,565	24,456,167	42,389,721	8,293,433	95,654,325
Other assets	2,356,289	-	573,664	2,476	-	2,932,429
Total	**151,613,093**	**21,621,746**	**73,247,139**	**98,089,735**	**42,677,070**	**387,248,783**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,716,656	476,967	3,324,780	11,133,250	2,091,365	23,743,018
Deposits and other liabilities due to customers	145,966,665	27,209,991	87,116,252	39,314,095	2,347,908	301,954,911
Subordinated liabilities	(11,235)	-	-	6,047,915	-	6,036,680
Other liabilities	2,710,826	-	256,460	-	-	2,967,286
Total	**155,382,912**	**27,686,958**	**90,697,492**	**56,495,260**	**4,439,273**	**334,701,895**
Net liquidity gap						
As of December 31, 2014	**(3,769,819)**	**(6,065,212)**	**(17,450,353)**	**41,594,475**	**38,237,797**	**52,546,888**
As of December 31, 2013	**17,587,646**	**(15,002,185)**	**(29,496,029)**	**42,691,974**	**32,561,801**	**48,343,207**

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

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

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

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

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

The Bank's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof.

The Bank regularly tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2014

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	68,547,389	-	-	-	-	68,547,389
Loans and receivables due from banks and other financial institutions	40,816,045	-	-	268,225	-	41,084,270
Loans and receivables due from customers	36,421,274	13,938,739	55,306,004	71,228,553	48,350,757	225,245,327
Financial assets (securities)	11,232,816	10,436,803	26,171,255	46,008,849	8,631,016	102,480,739
Other assets	2,356,289	-	573,664	2,476	-	2,932,429
Total	**159,373,813**	**24,375,542**	**82,050,923**	**117,508,103**	**56,981,773**	**440,290,154**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,717,593	583,864	3,749,007	12,111,956	2,337,061	25,499,481
Deposits and other liabilities due to customers	146,312,504	27,628,455	89,937,195	43,111,370	2,562,758	309,552,282
Subordinated liabilities	(11,235)	-	-	6,660,934	-	6,649,699
Other liabilities	2,710,826	-	256,460	-	-	2,967,286
Total	**155,729,688**	**28,212,319**	**93,942,662**	**61,884,260**	**4,899,819**	**344,668,748**
Net liquidity gap						
As of December 31, 2014	**3,644,125**	**(3,836,777)**	**(11,891,739)**	**55,623,843**	**52,081,954**	**95,621,406**
As of December 31, 2013	**17,807,042**	**(14,524,891)**	**(28,776,753)**	**43,779,085**	**32,943,301**	**51,227,784**

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

4. RISK MANAGEMENT (Continued)

4.3. Market Risk

Market risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk for all business operations and price risk for all items in the trading book.

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

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

4.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.1. Interest Risk (Continued)

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

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

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Bank's interest rate risk management bodies.

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

Compliance with internally defined interest rate risk limits at the last day was as follows:

	Limits	2014	2013
Relative GAP	Max 15%	0.69%	(3.66%)
Mismatch ratio	0.75 – 1.25	1.01	0.95

During 2014 the Bank's interest rate risk ratios were within internally prescribed limits.

The Bank has defined internal limits for interest rate risk exposure per major currency as well as the limit of the maximum economic value of equity.

Compliance with internally defined limits of economic value of equity:

	2014	2013
As at December 31	8.50%	5.20%
Average for the year	8.06%	5.98%
Maximum for the year	10.86%	7.45%
Minimum for the year	4.82%	4.78%
Limit	20%	20%

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4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.1. Interest Risk (Continued)

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

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2014:

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	26,851,647	-	-	-	-	26,851,647	41,695,742	68,547,389
Loans and receivables due from banks and other financial institutions	33,780,001	-	-	-	-	33,780,001	957,604	34,737,605
Loans and receivables due from customers	90,548,334	15,341,940	42,720,426	16,077,662	16,509,149	181,197,511	4,179,524	185,377,035
Financial assets (securities)	11,934,760	19,667,235	17,413,798	36,993,447	8,187,593	94,196,833	1,457,492	95,654,325
Other assets	-	-	-	-	-	-	2,932,429	2,932,429
Total	**163,114,742**	**35,009,175**	**60,134,224**	**53,071,109**	**24,696,742**	**336,025,991**	**51,222,791**	**387,248,783**
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,692,000	6,161,241	10,850,418	35,859	3,500	23,743,018	-	23,743,018
Deposits and other liabilities due to customers	155,202,029	24,083,955	82,952,118	36,617,677	-	298,855,779	3,099,132	301,954,911
Subordinated liabilities	-	-	6,036,680	-	-	6,036,680	-	6,036,680
Other liabilities	-	-	-	-	-	-	2,967,286	2,967,286
Total	**161,894,029**	**30,245,196**	**99,839,216**	**36,653,536**	**3,500**	**328,635,477**	**6,066,418**	**334,701,895**
Interest rate GAP:								
- at December 31, 2014	**1,220,713**	**4,763,979**	**(39,704,993)**	**16,417,573**	**24,693,242**	**7,390,515**	**45,156,373**	**52,546,888**
- at December 31, 2013	**4,146,816**	**(4,416,038)**	**(42,932,674)**	**8,448,556**	**21,414,967**	**(13,338,373)**	**61,681,580**	**48,343,207**

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

4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.1. Interest Risk (Continued)

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

The Bank's management believes that appropriate matching of items per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

Risk of interest rate changes

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

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

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

	Parallel increases by 100 b.p.	Parallel decreases by 100 b.p.
2014		
As at December 31	413,081	(413,081)
Average for the year	295,375	(295,375)
Maximum for the year	413,081	(413,081)
Minimum for the year	177,670	(177,670)
2013.		
As at December 31	376,389	(376,389)
Average for the year	341,589	(341,589)
Maximum for the year	376,389	(376,389)
Minimum for the year	306,788	(306,788)

4.3.2. Currency Risk

Currency risk represents the possibility of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals. All items in the banking book and the trading book that are denominated in a foreign currency and gold, including dinar items indexed to foreign currency clause are exposed to currency risk.

In order to minimize the currency risk exposure, the Bank diversifies the currency structure of its portfolio and currency structure of liabilities, reconciling open positions in certain currencies pursuant to the principles of maturity transformation.

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

4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.2. Currency Risk (Continued)

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

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

In identifying currency risks, the Bank identifies in a comprehensive and timely manner the causes that lead to emergence of currency risk and includes the determination of current currency risk exposure, as well as currency risk exposure resulting from new business products and activities.

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

- GAP analysis and currency risk ratio;
- VaR analysis;
- Stress test;
- Back testing.

Relieving foreign currency risk entails maintenance of risk at an acceptable level for the Bank's risk profile through the establishment of a transparent system of limits and defining measures used to mitigate foreign currency risk.

Control and monitoring of the currency risk consists of observation and supervision of compliance with internally and externally defined limits as well as monitoring of defined and implemented measures. Continuous monitoring and control of foreign currency risk during the day ensures timely undertaking measures for the purpose of maintaining the currency risk within defined limits. Foreign currency risk control means control at all management levels as well as independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

Reporting on currency risk includes internal and external reporting systems. It is performed on a daily basis.

The Bank reconciles its business operations with the prescribed foreign currency risk ratio, which represents the ratio between the total net foreign currency balance and the position of gold relative to the Bank's regulatory capital.

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

	2014	2013
Total currency risk balance	938,820	720,703
Currency risk ratio	2.90%	2.12%
Legally-defined limit	20%	20%

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4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.2. Currency Risk (Continued)

Breakdown of Monetary Assets and Monetary Liabilities per Currencies as of December 31, 2014

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause u CHF	RSD Items	Total
Cash and cash funds held with the central bank	40,085,327	128,877	394,499	281,353	**40,890,056**	-	-	-	27,657,333	**68,547,389**
Loans and receivables due from banks and other financial institutions	20,953,667	1,582,913	878,900	975,426	**24,390,906**	-	-	-	10,346,699	**34,737,605**
Loans and receivables due from customers	12,521,795	72,317	-	-	**12,594,112**	112,635,073	-	5,717,903	54,429,947	**185,377,035**
Financial assets (securities)	52,112,935	6,534,761	1,397,811	326,704	**60,372,211**	512,557	-	-	34,769,557	**95,654,325**
Other assets	1,256,445	407,356	183	37	**1,664,021**		-	-	1,268,408	**2,932,429**
Total	**126,930,169**	**8,726,224**	**2,671,393**	**1,583,520**	**139,911,306**	**113,147,630**	**-**	**5,717,903**	**128,471,944**	**387,248,783**
Deposits and other liabilities due to banks, other financial institutions and the central bank	18,603,718	210,878	25,283	27,901	**18,867,780**	119,572	-	-	4,755,666	**23,743,018**
Deposits and other liabilities due to customers	210,386,406	7,442,589	8,256,064	1,419,632	**227,504,691**	3,656,178	690,265	2,475	70,101,302	**301,954,911**
Subordinated liabilities	6,036,680	-	-	-	**6,036,680**	-	-	-	-	**6,036,680**
Other liabilities	532,668	326,794	33,526	46,951	**939,939**	-	-	-	2,027,347	**2,967,286**
Total	**235,559,472**	**7,980,261**	**8,314,873**	**1,494,484**	**253,349,090**	**3,775,750**	**690,265**	**2,475**	**76,884,315**	**334,701,895**
Net currency position										
- December 31, 2014	**(108,629,303)**	**745,963**	**(5,643,480)**	**89,036**	**(113,437,784)**	**109,371,880**	**(690,265)**	**5,715,428**	**51,587,630**	**52,546,888**
- December 31, 2013	**(115,195,557)**	**64,250**	**(5,686,296)**	**57,151**	**(120,760,452)**	**114,477,937**	**(56,633)**	**5,703,061**	**48,979,294**	**48,343,207**

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

4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.2. Currency Risk (Continued)

Ten-Day VaR

The Bank also conducts currency risk stress testing to estimate the potential effects of specific events and/or changes in more than one financial variable on the Bank's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Bank's portfolio during a specified period with a predefined confidence interval. The Bank calculates a one day and a ten day VaR, with a 99% confidence interval for foreign currency positions (currency VaR). In order to estimate the regulatory capital adequacy requirements regarding currency risk, the Bank calculates the VaR by using the generalized autoregressive-conditional heteroskedastic (GARCH) model for which it did not request approval from the National Bank of Serbia.

Currency VaR is calculated for foreign currency items as well as currency clause-indexed RSD items in both the banking book and trading book.

The breakdown of ten-day VaR with confidence interval of 99% for 2014 and 2013 is presented in the table below:

	As of December 31	Average	Maximum	Minimum
2014				
Currency risk	45,478	8,712	59,862	610
2013				
Currency risk	5,551	24,391	117,205	538

4.4. Operational Risk

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

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

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

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

4. RISK MANAGEMENT (Continued)

4.4. Operational Risk (Continued)

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

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

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

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

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

4.5. The Bank's Investment Risks

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, whereby such investments entail investments through which the Bank acquires equity interest or shares in a non-financial sector entity. The total Bank's investment in non-financial sector entities and Bank's own fixed assets cannot exceed 60% of the Bank's equity, but this restriction does not apply to the acquisition of shares for further trading and sales thereof within six months from the acquisition date.

4. RISK MANAGEMENT (Continued)

4.6. Exposure Risk

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

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

- The Bank's exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's equity;
- The Bank's exposure to a party that is related to the Bank cannot exceed 5% of the Bank's equity, while total exposure to the Bank's related parties cannot exceed 20% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

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

4.7. Country Risk

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

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

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

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

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

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

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

4. RISK MANAGEMENT (Continued)

4.8. Fair Value of Financial Assets and Liabilities

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

	December 31, 2014					December 31, 2013	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets							
Loans and receivables due from customers	185,377,035	184,544,586			184,544,586	177,560,058	176,513,004
Investment securities held to maturity	51,442	51,442			51,442	149,900	149,900
Financial liabilities							
Deposits and other liabilities due to customers	301,954,911	301,788,878			301,788,878	266,020,289	265,858,821

Fair values of loans and receivables due from customers are estimated using the discounted cash flows model in instances of loans and receivables at fixed interest rates. Discounts rates are based on the current market interest rates applied to instruments offered under similar terms to borrowers with similar credit ratings. In addition, liabilities due to customers with defined maturities and contracted at fixed interest rates are discounted taking into account the prevailing terms according to the deposit types, terms and maturities.

Loans that are no longer approved and cannot be approved (loans indexed to CHF) are discounted at the same interest rates. In addition, loans approved at fixed interest rates subsidized by the Government were discounted at the same rate since the Bank would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the Bank's Business Policy.

Fair values of investment securities held to maturity are estimated using market prices or the discounted cash flows model based on current market interest rates applied to similar product instruments offered. Investment securities held to maturity have all matured resulting in the carrying values being equal to their fair values.

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

4. RISK MANAGEMENT (Continued)

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

4.8.2. Financial instruments measured at fair value

	Level 1	Level 2	Level 3	December 31, 2014 Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	121,634	-	-	121,634
Securities available for sale (RSD)	-	35,179,215	-	35,179,215
Securities available for sale (FX)	-	60,302,034	-	60,302,034
Total	**121,634**	**95,481,249**	**-**	**95,602,883**

	Level 1	Level 2	Level 3	December 31, 2013 Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	115,319		-	115,319
Securities available for sale (RSD)	-	25,189,121	-	25,189,121
Securities available for sale (FX)	-	31,696,164	-	31,696,164
Total	**115,319**	**56,885,285**	**-**	**57,000,604**

Level 1 includes financial instruments traded in the stock exchange, while Level 2 includes securities whose fair values are estimated using the internally developed models based on the information from the auctions held in the secondary securities market (auctions).

Fair values of assets determined using the prices from the banking market are classified into Level 3.

4.9. Capital Management

The Bank has established a risk management system in accordance with the volume and structure of its business activities and the capital management is aimed at unhindered achievement of the Bank's business policy goals.

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel II Standards.

The Bank manages capital on an ongoing basis in order to:

- Maintain the minimum regulatory capital requirement (EUR 10 million);
- Comply with the prescribed capital adequacy ratio (minimum 12%);
- Maintain customer trust in the safety and stability of the Bank's operations;
- Realize business and financial plans;
- Support the expected growth of loans and receivables due from customers;
- Ensure optimum future sources of funds and deployment thereof;
- Realize of the dividend policy.

The Bank's regulatory capital represents the sum of the core capital and supplementary capital, reduced for deductible items. The capital adequacy ratio represents the Bank's capital relative to the sum of credit risk-weighted assets, foreign currency gap and operational risk exposure. Credit risk-weighted assets are determined according to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

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

4. RISK MANAGEMENT (Continued)

4.9. Capital Management (Continued)

Capital adequacy ratio

	2014	2013
Core capital	33,286,532	45,134,001
Supplementary capital	4,593,961	4,961,842
Deductible items	(5,555,355)	(16,076,615)
Capital	**32,325,138**	**34,019,228**
Credit risk-weighted assets	162,919,928	161,509,806
Operational risk exposure	19,093,050	16,668,642
Foreign currency risk exposure	938,917	720,804
Capital adequacy ratio (minimum 12%)	**17.67%**	**19.02%**

In the course of 2014 the Bank's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

Through its Capital Management Strategy and Capital Management Plan, the Bank ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and receivables, future sources of funding and their utilizations, dividend policy and changes in regulatory requirements.

As part of the system of capital management, the Capital Management Plan, includes the following:

- Strategic goals and schedule for realization thereof;
- Manner of organizing the process of available internal capital management;
- Procedures for planning adequate levels of available internal capital;
- Manner of attaining and maintaining adequate levels of available internal capital; and
- The Business Continuity Plan in case of unforeseen events.

The Bank continuously implements processes of internal assessment of capital adequacy in accordance with the nature, volume and complexity of its business operations and in compliance with the adopted risk management strategy, individual risk management policies and capital management strategy.

As a documented and continuous process, internal assessment of capital adequacy meets the following criteria:

- it is based on risk identification and measurement;
- it provides comprehensive assessment and monitoring of risks the Bank is or may be exposed to;
- it provides adequate level of internally available capital according to the Bank's risk profile,
- it is included in the Bank's management system and decision making process; and
- it is subject to regular analysis, supervision and review.

Stages of the internal capital adequacy assessment include the following:

- determination of materially significant risks as per qualitative and quantitative criteria;
- calculation of the amounts of internal capital requirements;
- determination of the aggregate internal capital requirement;
- comparison of the following elements:
  - capital to available internal capital;
  - minimum prescribed capital requirements to internal capital requirements for individual risks; and
  - sum of the minimum capital requirements to the aggregate internal capital requirement.

5. USE OF ESTIMATES

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

Key Sources of Estimation Uncertainty

Provisions for Credit Losses

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

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

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

Determining Fair Values

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

Critical Accounting Judgments in Applying the Bank's Accounting Policies

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

Impairment of Investments in Equity Shares

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

Valuation of Financial Instruments

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

5. USE OF ESTIMATES (Continued)

Critical Accounting Judgments in Applying the Bank's Accounting Policies

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

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

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

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

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

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

6. SEGMENT REPORTING

As described in the following passages, the Bank has three operating segments, which are the Bank's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic divisions, the Bank's management reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Bank's reporting segments:

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

Information regarding the results of each reporting segment is included below. Performance is measured based on segment profit before taxes, as included in the internal management reports that are reviewed by the Bank's Executive and Supervisory Boards. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

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6. SEGMENT REPORTING (Continued)

Operating segments report for 2014 is provided below:

	Retail banking*	Corporate banking	Investment and Interbank operations	Other	Total
External revenues and expenses					
Interest, fee and commission income	10,540,415	9,194,539	7,166,465	-	26,901,419
Interest, fee and commission expenses	(5,002,794)	(1,594,687)	(2,287,595)	-	(8,885,076)
Net gains/losses from impairment allowance	(382,120)	(2,341,030)	(2,239)	-	(2,725,389)
Net foreign exchange gains/losses	-	-	(205,943)	-	(205,943)
Net other income and expenses	60,140	298,208	60,140	-	418,488
Profit before operating expenses	**5,215,642**	**5,557,029**	**4,730,828**	**-**	**15,503,499**
Direct operating expenses	(5,478,080)	(1,588,907)	(331,978)	-	(7,398,965)
Net income/expenses from related party transactions	2,303,754	(3,428,395)	1,124,641	-	-
Profit after operating expenses and related party transactions	**2,041,315**	**539,728**	**5,523,491**	**-**	**8,104,534**
Indirect operating expenses**	(1,868,265)	(1,144,048)	(334,632)	-	(3,346,945)
Profit before taxes*	**173,050**	**(604,320)**	**5,188,859**	**-**	**4,757,589**
Assets per segment					
Cash and cash funds held with the central bank	-	-	68,547,389	-	68,547,389
Loans and receivables due from banks and other financial institutions	-	-	34,737,605	-	34,737,605
Loans and receivables due from customers	69,071,647	116,305,388	-	-	185,377,035
Investment securities	-	-	95,654,325	-	95,654,325
Other	**-**	**-**	5,480,888	16,464,283	21,945,171
	69,071,647	**116,305,388**	**204,420,207**	**16,464,283**	**406,261,524**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	23,743,018	-	23,743,018
Deposits and other liabilities due to customers	210,246,716	57,748,604	33,959,592	-	301,954,911
Subordinated liabilities	-	-	6,036,680	-	6,036,680
Other		-	-	4,980,111	4,980,111
	210,246,716	**57,748,604**	**63,739,290**	**4,980,111**	**336,714,720**

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

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6. SEGMENT REPORTING (Continued)

Operating segments report for 2013 is provided below:

	Retail banking*	Corporate banking	Investment and Interbank operations	Other	Total
External revenues and expenses					
Interest, fee and commission income	10,034,643	11,325,958	6,156,383	-	27,516,985
Interest, fee and commission expenses	(5,687,926)	(1,933,536)	(2,401,137)	-	(10,022,599)
Net gains/losses from impairment allowance	(241,744)	(3,024,372)	46,041	-	(3,220,075)
Net foreign exchange gains/losses			(48,733)	-	(48,733)
Net other income and expenses	105,163	314,266	105,162	-	524,591
Profit before operating expenses	**4,210,137**	**6,682,316**	**3,857,717**	**-**	**14,750,169**
Direct operating expenses	(5,092,812)	(1,413,775)	(281,088)	-	(6,787,675)
Net income/expenses from related party transactions	2,312,653	(4,124,184)	1,811,531	-	-
Profit after operating expenses and related party transactions	1,429,978	1,144,356	5,388,160	-	7,962,493
Indirect operating expenses**	(1,878,056)	(1,155,370)	(340,693)	-	(3,374,119)
Profit before taxes*	**(448,079)**	**(11,014)**	**5,047,467**	**-**	**4,588,375**
Assets per segment					
Cash and cash funds held with the central bank	-	-	70,934,839	-	70,934,839
Loans and receivables due from banks and other financial institutions	-	-	35,247,935	-	35,247,935
Loans and receivables due from customers	61,832,082	115,727,976	-	-	177,560,058
Investment securities	-	-	57,150,504	-	57,150,504
Other	-	-	5,480,888	16,412,095	21,892,983
	61,832,082	**115,727,976**	**168,814,166**	**16,412,095**	**362,786,319**
Liabilities per segment					
Deposits and other liabilities due to banks, other financial institutions and the central bank			21,058,542	-	21,058,542
Deposits and other liabilities due to customers	189,120,025	45,178,850	31,721,413	-	266,020,289
Subordinated liabilities	-	-	5,711,409	-	5,711,409
Other	-	-	-	5,033,861	5,033,861
	189,120,025	**45,178,850**	**58,491,364**	**5,033,861**	**297,824,101**

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

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

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

(i) Assets for which fair value approximates carrying value

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

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7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(ii) Fixed rate financial instruments

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

8. NET INTEREST INCOME

Net interest income includes:

	Year Ended December 31, 2014	2013
Loans and receivables due from banks	591,752	1,270,256
Loans and receivables due from customers	14,686,703	16,539,021
Central bank	587,127	710,674
Investment securities	5,358,797	3,503,823
Total interest income	21,224,379	22,023,774
Deposits from and liabilities due to banks	688,661	972,264
Deposits from and liabilities due to customers	6,133,656	7,233,835
Borrowings received	1,103,476	888,437
Total interest expenses	7,925,793	9,094,536
Net interest income	13,298,586	12,929,238

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

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

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	Year Ended December 31, 2014	2013
***Fees and commission* income**		
Payment transfer operations	2,835,577	2,744,327
Fees on issued loans and guarantees - retail customers	20,011	21,602
Fees on issued loans and guarantees - corporate customers	259,847	249,650
Fees on purchase and sale of foreign currencies	443,916	542,380
Brokerage and custody fees	60,375	43,534
Fees arising from card operations	1,160,379	1,015,231
Credit Bureau processing fees	84,265	81,642
Other banking services	645,203	649,453
	5,509,573	5,347,819
Fee and commission expenses		
Payment transfer operations	86,079	78,584
Fees on issued loans and guarantees - corporate customers	2,383	4,799
Brokerage and custody fees	2,195	3,098
Fees arising from card operations	72,258	58,295
Other banking services	4,552	616
	167,467	145,392
	5,677,040	5,493,211
Fee and commission expenses in RSD		
Payment transfer operations	206,287	213,196
Fees arising on purchase and sale of foreign currencies	19,437	51,282
Fees arising from card operations	273,557	235,321
Credit Bureau processing fees	64,802	65,184
Other banking services	128,585	114,501
	692,668	679,484
Fee and commission expenses in foreign currencies		
Payment transfer operations	39,533	31,630
Fees arising from card operations	183,028	160,273
Other banking services	44,054	56,676
	266,615	248,579
	959,283	928,063
Net fee and commission income	4,717,757	4,565,148

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	Year Ended December 31, 2014	2013
Gains on the fair value adjustment of securities – bonds	3,669	6,092
Gains on the fair value adjustment of securities – investment units	1,040	504
Gains on the fair value adjustment of securities – shares	426	958
Gains on the sales of securities at fair value through profit and loss	2,469	16,340
	7,604	23,894
Losses on the fair value adjustment of securities – shares	(508)	(290)
Losses on the fair value adjustment of securities – bonds	(532)	(1,262)
Losses on the fair value adjustment of securities – investment units	(49)	-
Losses on the sales of securities and other financial assets held for trading	(439)	-
	(1,528)	(1,552)
Net gains on the financial assets held for trading	6,076	22,342

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

11. NET GAINS ON FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

	Year Ended December 31, 2014	2013
Gains on the sale of securities available for sale	52,028	1,738
Losses on the sale of securities available for sale	(746)	-
Net gains on the financial assets available for sale	51,282	1,738

Gains on the sale of securities available for sale of RSD 52,028 thousand relate to the gains from the sale of old foreign currency savings bonds (2014 series) in the amount of RSD 8,248 thousand and the Republic of Serbia Treasury bills in the amount of RSD 43,780 thousand.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2014	2013
Positive currency clause effects	4,993,387	4,551,137
Positive currency clause effects – value adjustment of securities	14,022	7,737
Foreign exchange gains – value adjustment of securities	27,065	421,001
Positive currency clause effects – retail customers	2,607,787	1,946,214
Foreign exchange gains	6,504,190	1,440,279
	14,146,451	8,366,368
Negative currency clause effects	(980,887)	(3,833,060)
Negative currency clause effects – value adjustment of securities	(3,392)	(7,452)
Negative currency clause effects – value adjustment of liabilities	(207,365)	(460,227)
Negative currency clause effects – retail customers	(343,072)	(1,716,465)
Foreign exchange losses	(12,817,678)	(2,397,897)
	(14,352,394)	(8,415,101)
Net foreign exchange losses and negative currency clause effects	(205,943)	(48,733)

13. OTHER OPERATING INCOME

Other operating income relates to:

	Year Ended December 31, 2014	2013
Gains on the valuation of property and equipment	-	12,260
Reversal of unreleased provisions for litigations	-	381,670
Other income from operations	179,395	186,815
Other income	389,796	542,801
Total	569,191	1,123,546

Within the line item of other income the largest portion relates to the prior years' interest income from corporate customers and prior years' interest income from retail customers in the amount of RSD 177,926 thousand and RSD 41,570 thousand, respectively.

In 2014 the Bank received dividend from its subsidiary bank from Budva in the amount of RSD 120,689 thousand (EUR 1,000 thousand). The Bank withheld and paid withholding tax at the rate of 9% in Montenegro in the amount of RSD 10,862 thousand (EUR 90 thousand). The net amount of dividend paid was RSD 109,827 thousand, i.e., EUR 910 thousand.

Within the line item of other income from operations in 2014, the amount of RSD 101,130 thousand relates to rental income (out of which RSD 93,770 thousand relates to income from properties leased out for business purposes.

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

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

Net losses from impairment of financial assets relate to:

	Year Ended December 31, 2014	2013
Impairment allowance of loans and receivables	10,107,502	8,778,348
Provisions for off-balance sheet items	540,305	602,322
Reversal of impairment allowance of loans and receivables	(7,476,813)	(5,583,660)
Reversal of provisions for off-balance sheet items	(445,528)	(576,908)
Income from collection of receivables previously written-off	(77)	(27)
Total	2,725,389	3,220,075

Until the end of January 2015 the Bank did not have material collections of loans and receivables previously written off that would affect the reversal of impairment allowance in accordance with IAS 10.

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

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investment securities (Notes 21 and 22)	Other assets (Note 32)	Off-balance sheet liabilities (Note 36)	Total
Balance as at January 1, 2014	**325,374**	**18,830,581**	**45,185**	**1,764,028**	**473,647**	**21,438,815**
Charge for the year	2,468	9,835,443	9,428	260,163	540,305	10,647,807
Charge for the year	(2,452)	(6,714,653)	(12,715)	(746,993)	(445,528)	(7,922,341)
Decrease in impairment allowance		394,977	-	-	-	394,977
Foreign exchange effects	43,199	452,908	94	9,486	-	505,687
Write-off	-	(268,885)	-	(1,530)	-	(270,415)
Other movements	-	554,606	78,229	21,147	-	653,982
Balance as at December 31, 2014	**368,589**	**23,084,977**	**120,221**	**1,306,301**	**568,424**	**25,448,512**

15. STAFF COSTS

Staff costs include:

	Year Ended December 31, 2014	2013
Net salaries	2,519,942	2,583,349
Net benefits	429,025	408,709
Payroll taxes	373,034	413,507
Payroll contributions	783,688	757,473
Considerations paid to seasonal and temporary staff	40,725	54,145
Provisions for retirement benefits - net	(2,748)	4,014
Other staff costs	67,823	40,926
Total	4,211,489	4,262,123

16. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2014	2013
Amortization charge – intangible assets (Note 26.2)	283,451	258,440
Depreciation charge – property and equipment (Note 27.2)	524,597	501,092
Depreciation charge – investment property (Note 28.1)	36,584	33,116
Total	844,632	792,648

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

17. OTHER EXPENSES

Other expenses include:

	Year Ended December 31, 2014.	2013.
Cost of materials	398,717	460,929
Cost of production services	2,176,374	2,036,059
Non-material costs (without taxes and contributions)	2,224,978	1,615,612
Taxes payable	139,132	142,444
Contributions payable	713,802	816,697
Other costs	34,037	39,297
Other expenses	210,113	408,592
Losses on the valuation of property and equipment, investment property and intangible assets	697	197,328
Provisions for litigations	-	13,100
Total	5,897,850	5,730,058

18. INCOME TAXES

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

	Year Ended December 31, 2014	2013
Deferred income tax benefits	47,547	87,950
Deferred income tax expenses	(19,559)	-
Total	27,988	87,950

In 2014 and 2013 the Bank did not report current income tax expenses pursuant to the effective tax regulations.

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

	2014	2014	2013	2013
Profit for the year before taxes		**4,757,589**		**4,588,375**
Tax calculated using the local income tax rate	15%	713,638	15%	688,256
Expenses not recognized for tax purposes	1.18%	56,261	1.63%	74,673
Tax effects of the net capital losses /gains	-0.01%	(412)	-0.01%	(73)
Tax effects of income reconciliation	-0.30%	(14,441)	-1.01%	(46,245)
Tax credit received and used in the current year	0%	-	-1.06%	(48,356)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-17.72%	(843,246)	-14.57%	(668,255)
Tax effect adjustments (used and new ones)	-0.59%	(27,988)	-1.92%	(87,950)
Tax effects stated within the income statement	-	**(27,988)**	-	**(87,950)**

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

	Year Ended December 31, 2014	2013
Balance as at January 1	(10,156)	4,896
Occurrence and reversal of temporary differences	(140,251)	(15,052)
Balance as at December 31	(150,407)	(10,156)

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

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

	December 31, 2014	December 31, 2013
In RSD		
Cash on hand	2,466,110	2,524,909
Gyro account	25,191,123	22,926,420
Interest on obligatory RSD reserves	-	20,550
Other RSD cash funds	100	100
	27,657,333	25,471,979
In foreign currencies		
Cash on hand	2,492,030	1,921,714
Foreign currency obligatory reserves	36,737,503	41,148,420
Other cash funds	1,660,523	2,392,726
	40,890,056	45,462,860
Total	68,547,389	70,934,839

Adjustments to cash and cash equivalents for the purpose of preparing the statement of cash flows

Foreign currency accounts held with foreign banks (Note 23.1)	13,350,291	10,531,880
Foreign currency obligatory reserves	(36,737,503)	(41,148,420)
Interest on obligatory RSD reserves	-	(20,550)
	(23,387,212)	(30,637,090)
Cash and cash equivalents reported in the statement of cash flows	45,160,177	40,297,749

In the statement of cash flows the Bank reports on the cash funds held on the gyro account held with NBS, cash on accounts held with foreign banks, cash funds held on the account with the Central Securities Registry, Depository and Clearing House and cash on hand.

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory dinar reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0% to 5%, depending on the maturity of liabilities and their sources, whereby dinar reserve is comprised of: obligatory RSD reserves, 36% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 28% of RSD equivalent of obligatory reserves in EUR to deposits over 730 days (Official gazette of RS, no. 135/2014). The National Bank of Serbia pays interest on these dinar reserves in the amount of 2.5% per annum (2013: 2.5% p.a.).

The Bank calculates the obligatory reserves in foreign currency on the 17th day of the month based on the average balance of foreign currency deposits registered in the preceding calendar month. The required reserve in foreign currency is allocated onto a special account held with the National Bank of Serbia and these funds may be drawn as necessary. The Bank is under obligation to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency obligatory reserve, where, for the purposes of realizing average daily balance of allocated required reserve, the daily balance on the account of required reserve may be below or above the calculated foreign currency obligatory reserve.

Foreign currency obligatory reserve does not accrue interest. During 2014, in accordance with the Decision on Required Reserves of Banks with the National Bank of Serbia, the Bank allocated a certain portion of its foreign currency reserve in dinars to its gyro account.

Other foreign currency cash funds of RSD 1,660,523 thousand (2013: RSD 2,392,726 thousand) entirely relate to the clearing account held with the s Central Securities Registry, Depository and Clearing House for trade in securities.

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

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

Financial assets held for trading comprise:

	December 31, 2014	December 31, 2013
Securities held for trading (in RSD)	51,458	21,569
Securities held for trading (in foreign currencies)	70,176	93,750
	121,634	115,319

Breakdown of financial assets held for trading is provided below:

	December 31, 2014 Total assets held for trading	December 31, 2013 Total assets held for trading
Republic of Serbia bonds	70,176	93,751
Corporate shares	3,787	3,574
Bank shares	180	490
Investment units of OIF monetary fund	47,491	17,504
Balance as at December 31	121,634	115,319

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise*:*

	December 31, 2014	December 31, 2013
Securities available for sale (in RSD)	35,179,709	25,191,634
Securities available for sale (in foreign currencies)	60,302,034	31,696,164
	95,481,743	56,887,798
Impairment allowance of securities available for sale	(494)	(2,513)
	95,481,249	56,885,285

Financial assets available for sale

In RSD:
Republic of Serbia Treasury bills in the amount of RSD 10,590,077 thousand; Republic of Serbia bonds in the amount of RSD 22,992,331 thousand; bonds from the City of Pančevo and Municipalities Stara Pazova and Šabac budgets in the amount of RSD 443,283 thousand; bonds of the company Tigar a.d., Pirot in the amount of RSD 69,769 thousand; and bonds of the following banks: Societe generale banka a.d., Beograd in the amount of RSD 1,084,159 thousand and AIK banka a.d., Niš in the amount of RSD 90 thousand.

Out of the total amount of impairment allowance, RSD 490 thousand relates to the bonds of the company Tigar a.d., Pirot.

In foreign currencies:
Republic of Serbia Treasury bills in the amount of RSD 10,257,953 thousand; long-term Government of the Republic of Serbia bonds in the amount of RSD 46,972, thousand; Republic of Serbia old savings bonds in the amount of RSD 1,346,991 thousand; foreign bank bonds - Raiffeisen Bank International in the amount of RSD 1,397,811 thousand; and bonds of the UK Government in the amount of RSD 326,704 thousand.

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21. FINANCIAL ASSETS AVAILABLE FOR SALE (Continued)

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

Impairment allowance of securities available for sale

	December 31, 2014	December 31, 2013
Individual impairment allowance		
Balance at January 1	2,512	2,546
Current year impairment allowance:		
Charge for the year	1,962	16,607
Effects of the changes in foreign exchange rates	94	442
Reversal	(4,074)	(17,083)
Total individual impairment allowance	494	2,512

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise*:*

	December 31, 2014	December 31, 2013
Securities held to maturity (discounted bills of exchange)	171,169	192,573
Impairment allowance of securities held to maturity	(119,727)	(42,673)
	51,442	149,900

Financial assets held to maturity

Impairment allowance of securities held to maturity

	December 31, 2014	December 31, 2013
Individual impairment allowance		
Balance at January 1	42,673	51,253
Current year impairment allowance:		
Charge for the year	7,466	128,566
Reclassified from individual to group impairment allowance	(24,411)	-
Reversal	(7,547)	(137,146)
Other	32	-
Total individual impairment allowance	18,213	42,673
Group impairment allowance		
Balance at January 1	-	-
Charge for the year		
Reclassified from individual to group impairment allowance	24,411	-
Reversal	(1,094)	-
Other	78,197	-
Total group impairment allowance	101,514	-
Total group and individual impairment allowance	119,727	42,673

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

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

23.1 Loans and receivables due from banks include:

	December 31, 2014	December 31, 2013
RSD loans and receivables		
Per repo transactions	7,000,000	12,246,700
Loans for working capital	1,200,000	100,000
Overnight loans	2,200,000	-
Other receivables	27,567	28,986
Prepayments	24,595	2,602
Impairment allowance	(105,463)	(105,463)
	10,346,699	12,272,825
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	13,350,291	10,531,880
Overnight loans	8,094,628	9,238,017
Other loans and receivables due from foreign banks	575,355	480,225
Foreign currency deposits placed with other banks	1,117,200	1,046,461
Prepayments	3,513	6,920
Other receivables	15,924	17,165
Loans to foreign banks (subsidiaries)	604,792	653,460
Secured foreign currency sureties	892,329	1,220,893
Impairment allowance	(263,126)	(219,911)
	24,390,906	22,975,110
	34,737,605	35,247,935

As of December 31, 2013 securities acquired through repo transactions with the National Bank of Serbia amounting to RSD 7,000,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rate of 6.2%.

Short-term RSD deposits of other banks were placed with the Bank for a period of a year at interest rates ranging from 6.0 % to 10.5% per annum.

Short-term foreign currency deposits of other banks were placed with the Bank for a period of a year at interest rates ranging from 0.01% to 0.8% annually for EUR deposits and from 0.02% to 0.4% and 0.05% for USD and CHF deposits, respectively.

Interest rates applied to the loans extended to subsidiary banks ranged between 3.75% plus EURIBOR and 3.83% plus EURIBOR.

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

Group impairment allowance		
Balance at January 1	325,374	333,437
Current year impairment allowance:		
Charge for the year	2,468	990
Effects of the changes in foreign exchange rates	43,199	47,762
Reversal	(2,452)	(56,815)
Total group impairment allowance	**368,589**	**325,374**

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24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

	2014 Gross Amount	2014 Impairment Allowance	2014 Carrying Amount	2013 Gross Amount	2013 Impairment Allowance	2013 Carrying Amount
Corporate customers						
Transaction account overdrafts	655,510	(188,902)	466,608	870,024	(145,294)	724,730
Working capital loans	51,932,892	(6,089,887)	45,843,005	47,629,473	(4,027,004)	43,602,469
Export loans	2,181,694	(887,774)	1,293,920	2,905,328	(927,611)	1,977,717
Investment loans	35,389,792	(2,081,382)	33,308,410	36,897,924	(1,337,528)	35,560,396
Purchased loans and receivables - factoring	101,171	(80,424)	20,747	159,499	(29,458)	130,041
Loans for payment of imported goods and services	5,270,391	(1,804,796)	3,465,595	4,805,144	(2,086,475)	2,718,669
Loans for discounted bills of exchange ,acceptances and payments made for guarantees called on	1,865,582	(1,058,213)	807,369	1,888,584	(1,013,810)	874,774
Other loans and receivables	50,663,189	(8,730,494)	41,932,695	46,888,173	(7,450,449)	39,437,724
Prepayments	445,249	(905)	444,344	341,767	-	341,767
Accruals	(283,166)	-	(283,166)	(359,271)	-	(359,271)
Retail customers						
Transaction account overdrafts	4,450,820	(638,367)	3,812,453	4,609,541	(569,436)	4,040,105
Housing loans	37,842,597	(517,453)	37,325,144	33,800,924	(460,696)	33,340,228
Cash loans	15,060,740	(854,475)	14,206,265	12,632,696	(681,094)	11,951,602
Consumer loans	597,545	(49,927)	547,618	1,165,521	(55,983)	1,109,538
Other loans and receivables	2,447,906	(97,021)	2,350,885	2,324,113	(45,743)	2,278,370
Prepayments	220,458	(4,957)	215,501	183,756	-	183,756
Accruals	(380,358)	-	(380,358)	(352,557)	-	(352,557)
Balance as at December 31	**208,462,012**	**(23,084,977)**	**185,377,035**	**196,390,639**	**(18,830,581)**	**177,560,058**

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

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

	December 31, 2014	December 31, 2013
Individual impairment allowance		
Balance as at January 1	6,406,946	3,410,334
Current year impairment allowance:		
Charge for the year	5,715,603	4,825,093
Reclassified from group to individual impairment allowance	3,021,278	58,681
Effects of the changes in foreign exchange rates	517,703	37,365
Reversal	(5,555,663)	(1,916,049)
Transfer from off-balance sheet items	394,977	-
Prior years' interest income	(171,669)	-
Other	660,593	(8,478)
Total individual impairment allowance	**10,989,768**	**6,406,946**
Group impairment allowance		
Balance as at January 1	12,423,635	12,085,663
Current year impairment allowance:		
Charge for the year	4,119,840	3,579,923
Reclassified from group to individual impairment allowance	(3,021,278)	(58,681)
Effects of the changes in foreign exchange rates	106,874	(26,047)
Reversal	(1,158,990)	(3,136,099)
Write-off	(268,885)	(13,728)
Other	(105,987)	(7,396)
Total group impairment allowance	**12,095,209**	**12,423,635**
Balance as at December 31	**23,084,977**	**18,830,581**

24.3 Short-term RSD and foreign currency loans were approved for periods from 30 days to one year, at interest rates ranging between 0.53% and 1.8% per month.

Long-term RSD and foreign currency loans were approved for periods from 1 to the maximum of 30 years, at interest rates ranging between 3.35% (increased by the interest rate agreed upon for the related monetary collateral) and 22.5% per annum.

Risks and Uncertainties

The Bank's management recorded provisions for potential credit losses based on all known or anticipated credit risks as of the issue date of the financial statements. The Bank's loan portfolio receivables were classified based on the most recent financial information available as well as based on the expected effects of the restructuring processes. If these effects fail to provide possibilities to settle the liabilities due to the Bank, the Bank's receivables are mostly collateralized by mortgages assigned over property held by debtors, as well as pledges on movables. In the case that the debt recovery actions undertaken by the Bank's management are unsuccessful, additional amounts of allowances for impairment and provisions for losses based on the assessed irrecoverability would be required in the forthcoming reporting periods.

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25. INVESTMENTS IN SUBSIDIARIES

	December 31, 2014	December 31, 2013
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Budva	2,366,273	2,366,273
	5,480,888	5,480,888

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

	December 31, 2014	December 31, 2013
Intangible assets	388,775	527,025
Intangible assets in progress	16,999	10,420
	405,774	537,445

26.2 Movements on the account of intangible assets in 2014 and 2013 are presented below:

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance at January 1, 2013	1,166,177	46,537	1,212,714
Additions	-	195,447	195,447
Transfers	231,564	(231,564)	-
Balance at December 31, 2013	1,397,741	10,420	1,408,161
Balance at January 1, 2014	1,397,741	10,420	1,408,161
Additions	-	151,781	151,781
Transfers	145,202	(145,202)	-
Balance at December 31, 2014	1,542,943	16,999	1,559,942
Accumulated Amortization			
Balance at January 1, 2013	612,276	-	612,276
Charge for the year (Note 16)	258,440	-	258,440
Balance at December 31, 2013	870,716	-	870,716
Balance at January 1, 2014	870,716	-	870,716
Charge for the year (Note 16)	283,451	-	283,451
Balance at December 31, 2014	1,154,167	-	1,154,167
Net Book Value			
- Balance at January 1, 2013	553,901	46,537	600,438
- Balance at December 31, 2013	527,025	10,420	537,445
- Balance at December 31, 2014	**388,775**	**16,999**	**405,774**

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

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

	December 31, 2014	December 31, 2013
Property	5,466,855	5,560,302
Equipment	838,138	926,305
Investments in progress	24,084	91,063
	6,329,077	6,577,670

27.2 Movements on the account of property and equipment in 2014 and 2013 are presented below:

	Property	Equipment	Investment in Progress	Total
Cost				
Balance at January 1, 2013	5,765,101	2,795,998	50,434	8,611,533
Additions	-	-	1,006,523	1,006,523
Transfers from investment in progress (Note 28.1)	287,195	379,504	(965,894)	(299,195)
Transfers from investment property(Note 28.1)	154,350	-	-	154,350
Disposal and retirement	(3,743)	(112,618)	-	(116,361)
Appraisal (revaluation) increase	972,450	-	-	972,450
Appraisal (revaluation) decrease	(191,808)	-	-	(191,808)
Impairment due to force majeure	(27,806)	-	-	(27,806)
Balance at December 31, 2013	6,955,739	3,062,884	91,063	10,109,686
Balance at January 1, 2014	6,955,739	3,062,884	91,063	10,109,686
Additions	-	-	1,128,920	1,128,920
Transfers from investment in progress (Note 28.1)	107,598	280,815	(1,195,899)	(807,486)
Transfers to investment property(Note 28.1)	(7,001)	-	-	(7,001)
Disposal and retirement	(34,087)	(100,179)	-	(134,266)
Sales	(10,180)	(47,770)	-	(57,950)
Balance at December 31, 2014	7,012,069	3,195,750	24,084	10,231,903
Accumulated Depreciation				
Balance at January 1, 2013	1,031,410	1,889,510	-	2,920,920
Charge for the year (Note 16)	147,369	353,723	-	501,092
Transfers from investment property(Note 28.1)	20,755	-	-	20,755
Impairment due to force majeure	(3,649)	-	-	(3,649)
Disposal and retirement	(2,923)	(107,323)	-	(110,246)
Appraisal (revaluation) increase	226,092	-	-	226,092
Appraisal (revaluation) decrease	(23,617)	-	-	(23,617)
Other	-	669	-	669
Balance at December 31, 2013	1,395,437	2,136,579	-	3,532,016
Balance at January 1, 2014	1,395,437	2,136,579	-	3,532,016
Charge for the year (Note 16)	164,446	360,151	-	524,597
Transfers to investment property(Note 28.1)	(1,394)	-	-	(1,394)
Disposal and retirement	(11,072)	(93,791)	-	(104,863)
Sales	(2,203)	(45,327)	-	(47,530)
Balance at December 31, 2014	1,545,214	2,357,612	-	3,902,826
Net Book Value				
- Balance at January 1, 2013	4,733,691	906,488	50,434	5,690,613
- Balance at December 31, 2013	5,560,302	926,305	91,063	6,577,670
- Balance at December 31, 2014	5,466,855	838,138	24,084	6,329,077

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

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

As a result of incomplete land registers, as at December 31, 2014, the Bank did not have title deeds as proof of ownership for 38 buildings and land lots stated at the net book value of RSD 1,726,221 thousand. The Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

Based on the annual count of assets, permanently unusable items of property, plant and equipment with the net book value of RSD 4,842 thousand were retired and derecognized from the Bank's records.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2014 and 2013 are presented below:

	Total
Cost	
Balance at January 1, 2013	1,907,716
Transfer from investments in progress (Note 27.2)	299,195
Transfer to property (Note 27.2)	(154,350)
Appraisal (revaluation) – decrease	(52,000)
Balance at December 31, 2013	2,000,561
Balance at January 1, 2014	2,000,561,
Transfer from investments in progress (Note 27.2)	807,486
Transfer from property (Note 27.2)	7,001
Appraisal (revaluation) – decrease	(4,216)
Balance at December 31, 2014	2,810,832
Accumulated Depreciation	
Balance at January 1, 2013	181,483
Charge for the year (Note 16)	33,116
Transfer to property (Note 27.2)	(20,755)
Appraisal effect	(1,837)
Balance at December 31, 2013	192,007
Balance at January 1, 2014	192,007
Charge for the year (Note 16)	36,584
Transfer from property (Note 27.2)	1,394
Appraisal effect	(297)
Balance at December 31, 2014	229,688
Net Book Value	
- Balance at January 1, 2013	1,726,233
- Balance at December 31, 2013	1,808,554
- Balance at December 31, 2014	2,581,144

As of December 31, 2014 the Bank stated investment property as totaling RSD 2,581,144 thousand comprised of leased out buildings/premises.

Pursuant to executed long-term lease agreements in 2014 the Bank transferred to investment property tangible assets acquired in lieu of debt collection (Beograd: Radnička 22 and Beogradska 39; Niš: Bulevar 12. februar bb and Gradina) totaling RSD 807,486 thousand.

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

28. INVESTMENT PROPERTY (Continued)

28.2 As of December 31, 2014 the net profit realized form investment property amounted to RSD 35,896 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Profit
Beograd, Makedonska 29	5,553	(21,239)	34,162	12,923
Niš, Vrtište new D building	1,816	(556)	3,939	3,383
Niš, TPC Kalča	85	(800)	3,370	2,570
Beograd, Omladinskih brigada 19	15,218	(14,172)	15,952	1,780
Šabac, Majur, Obilazni put bb	1,263	(870)	1,543	673
Lovćenac, Maršala Tita bb,	46,890	(3,772)	8,414	4,642
Negotin, Save Dragovića 20-22	658	(1,032)	701	(331)
Gradina, border crossing	60	(62)	847	785
Niš, Bulevar 12. februar bb	816	(745)	2,198	1,453
Beograd, Radnička 22	7,190	(1,570)	5,383	3,813
Beograd, Beogradska 39	460	(533)	4,738	4,205
		(45,351)	81,247	35,896

29. CURRENT TAX ASSETS

	December 31, 2014	December 31, 2013
Current tax assets (paid monthly advance income tax payments for 2014 as prescribed by the Corporate Income Tax Law)	73,835	712,700

During 2014 the Bank had a refund of the prepaid income tax from the Tax Administration in the amount of RSD 1,000,000 thousand. The income tax was prepaid as a result of the obligatory monthly advance income tax payments for the years 2013 and 2014 pursuant to the Corporate Income Tax Law and of the fact that in 2013 the Bank had no tax liabilities in this respect due to tax exemption of the interest income from debt securities of the Republic of Serbia and the National Bank of Serbia.

The prerequisite for the prepaid income tax refund was a field inspection conducted by the Tax Administration, which identified no irregularities in the Bank's calculation and payment of the corporate income taxes.

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30. DEFERRED TAX ASSETS AND LIABILITIES

30.1 Deferred tax assets and liabilities relate to:

	2014			2013		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(64,287)	(64,287)	-	(105,617)	(105,617)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	40,611	(213,650)	(173,039)	-	-	-
Long-term provisions for retirement benefits	26,750	-	26,750	42,088	-	42,088
Impairment of assets	60,142	-	60,142	53,291	-	53,291
Assets based on calculation of public duties	27	-	27	82	-	82
Total	127,530	(277,937)	(150,407)	95,461	(105,617)	(10,156)

30.2 Movements on temporary differences during 2014 and 2013 are presented as follows

	Balance at January 1	Recognized in Profit or Loss	Recognized in Equity	Balance at December 31
Property and equipment	(105,617)	40,696	634	(64,287)
Securities	-	-	(173,039)	(173,039)
Long-term provisions for retirement benefits	42,088	(19,505)	4,167	26,750
Impairment of assets	53,291	6,851	-	60,142
Assets based on calculating public duties	82	(55)	-	27
Total	(10,156)	27,987	(168,238)	(150,407)

	Balance at January 1	Recognized in Profit or Loss	Recognized in Equity	Balance at December 31
Property and equipment	(57,760)	55,145	(103,002)	(105,617)
Long-term provisions for retirement benefits	41,486	602	-	42,088
Impairment of assets	21,159	32,132	-	53,291
Assets based on calculating public duties	11	71	-	82
Total	4,896	87,950	(103,002)	(10,156)

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

	December 31, 2014	December 31, 2013
Non-current assets held for sale and assets from discontinued operations	84,227	71,630
	84,227	71,630

Non-current assets held for sale:

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	611
Požarevac, M.Pijade 2, business premises	790.82	31,839
Požarevac, M.Pijade 2, business premises	880.86	26,345
Belgrade, Toše Jovanovića 7, business premises	24.05	2,213
Vrbas, M. Tita 49, business premises	145.56	3,992
Kruševac, Dositejeva bb, business premises	431.51	19,227
		84,227

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

32. OTHER ASSETS

Other assets comprise:

	December 31, 2014	December 31, 2013
In RSD		
Fee receivables per other assets	126,644	119,908
Inventories	144,119	157,876
Assets acquired in lieu of debt collection	3,225,648	1,968,810
Prepaid expenses	140,804	171,129
Equity investments	1,195,544	1,020,176
Other RSD receivables	1,729,226	4,469,560
	6,561,985	7,907,459
Impairment allowance of:		
Fee receivables per other assets	(61,494)	(56,482)
Assets acquired in lieu of debt collection	(188,336)	(141,357)
Equity investments	(448,581)	(446,954)
Other RSD receivables	(537,374)	(1,085,090)
	(1,235,785)	(1,729,883)
In foreign currencies		
Other receivables from operations	1,024,993	336,697
Receivables in settlement	809,686	323,250
Other foreign currency receivables	3,219	2,306
	1,837,898	662,253
Impairment allowance of		
Other receivables from operations	(94,922)	(60,913)
Receivables in settlement	(78,951)	(74,820)
	(173,873)	(135,733)
	6,990,225	6,704,096

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

32. OTHER ASSETS (Continued)

Implementation of the effective regulations as of December 31, 2014 and the modified contents of the line item of other assets required reclassification of equity investments from equity investments to other assets as shown in the following table:

Equity investments	**2014**	**2013**
Equity investments in banks and other financial organizations	143,383	135,667
Equity investments in companies and other legal entities	460,913	457,178
Equity investments in non-resident entities abroad	591,248	427,331
	1,195,544	1,020,176
Impairment allowance of:		
Equity investments in banks and other financial organizations	(26,683)	(25,266)
Equity investments in companies and other legal entities	(421,898)	(421,688)
	(448,581)	(446,954)

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,386 thousand, AIK banka a.d., Niš in the amount of RSD 61,061 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,053 thousand, Union banka d.d., Sarajevo in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. oktobar a.d., Kruševac in the amount of RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 50,737 thousand and Politika a.d., Beograd in the amount of RSD 39,187 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 487,895 thousand and MASTER Card in the amount of RSD 103,353 thousand.

Impairment allowance of equity investments totaling RSD 448,581 thousand refers to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. oktobar a.d., Kruševac - RSD 324,874 thousand, RTV Politika d.o.o., Beograd - RSD 37,634 thousand, Politika a.d., Beograd - RSD 28,484 thousand, Kompanija Dunav osiguranje a.d., Beograd - RSD 28,828 thousand and AIK banka a.d., Niš - RSD 19,287 thousand.

Other RSD receivables mostly refer to other receivables from operations totaling RSD 253,028 thousand, advances paid for working capital assets of RSD 81,704 thousand, rental receivables of RSD 369,862 thousand and interest receivables per other assets of RSD 268,543 thousand.

Other receivables from operations in foreign currencies for the most part pertain to receivables for purchase and sale of foreign currencies due from banks in the amount of RSD 725,750 thousand.

Movements on the allowance for impairment account related to other assets and prepayments during the year are presented in the table below:

	December 31, 2014	**December 31, 2013**
Balance as at January 1	1,764,028	1,321,432
Current year impairment allowance:		
Charge for the year	260,163	227,169
Effects of the changes in foreign exchange rates	9,486	736
Reversal	(746,993)	(320,468)
Write-off	(1,530)	(10,056)
Other	21,147	545,215
Balance as at December 31	1,306,301	1,764,028

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32. OTHER ASSETS (Continued)

Assets acquired in lieu of debt collection totaling RSD 3,225,648 thousand gross, less recorded impairment allowance of RSD 188,336 thousand, with the net book value of RSD 3,037,312 thousand relate to:

Properties acquired in lieu of debt collection after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Property	Area in m^2	Value	Acquisition Date
	434.58	4,959	17/04/2013
CM Vukovac, CM Milatovac, arable land	132,450.00	586	16/05/2014
Bor, Nikole Pašića 21, buildings, warehouse, plant	3,823.00	90,913	08/05/2014
Aleksinac, arable land (fields, vineyards, pastures)	36,787.00	243	09/07/2014
Subotica, Magnetna 17, production plant, warehouse	2,492.00	50,865	18/07/2014
Reževići, Montenegro, karst, category 5 forest	1,363.20	24,483	22/07/2014
Reževići, Montenegro, category 5 forest	5,638.54	86,600	22/07/2014
Bajina Bašta, Vojvode Mišića 72/1, family house	110.25	2,800	01/08/2014
Mokra Gora, house, meadows pastures, fields	58,400.00	11,901	31/01/2014
Kopaonik, house and yard	337.00	10,955	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29.00	4,421	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44.00	6,683	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35.00	5,347	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34.00	5,141	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39.00	5,963	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 1	266.00	122,923	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 2	57.00	26,393	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 11	44.00	6,858	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226.00	60,474	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253.00	81,983	31/01/2014
Novi Sad, Vardarska 1/b, business premises no. 1	291.00	48,629	31/01/2014
Novi Sad, Tihomira Ostojića 4, business premises no. 7	134.00	17,664	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81.00	10,702	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79.00	10,495	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no.	408.00	71,488	31/01/2014
Zrenjanin, Bagljaš, Novosadski put 4, building, construction land, transformer substation, gas station, building in construction	9,144.00	38,310	14/08/2014
Beograd, Jurija Gagarina 153a, business premises	30.00	6,538	27/08/2014
Amerić, Mladenovac, category 3 and category 4 fields	7,768.00	260	03/10/2014
CO Kajtasovo, Bela Crkva, forest	4,187.00	85	03/10/2014
Mladenovac, Šepšin, fields, orchards	25,136.00	551	03/10/2014
Total I		815,213	

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32. OTHER ASSETS (Continued)

Properties acquired in lieu of debt collection in prior periods (12 months before) – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Property	Area in m^2	Value	Acquisition Date
Mur, Novi Pazar, house and category 3 orchard	1,190.00	5,535	06/04/2012
I.C.P Kruševac, commercial building	12,836.00	49,982	08/06/2012
Soko Banja, arable land (orchard, fields)	-	3,230	31/07/2013
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,010	24/07/2012
Majur, Tabanovačka, category 4 arable field	1,445 ha	1,671	10/08/2012
Mladenovac, category 3 arable field	16,633	274	22/11/2012
Prokuplje, Maloplanska 7, two buildings and land	490,00	314	11/06/2012
Obrenovac, Mislođin, arable field	10,017	1,078	11/07/2012
Gnjilica, category 7 arable field	2,638.00	115	11/06/2008
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	113,882	12/02/2009
Residential building, Čačak, at Ratka Mitrovića 6	195	3,706	12/05/2009
Novi Pazar, Kej skopskih žrtava 44, store	82.95	3,435	27/09/2006
Novi Pazar, yard and category 4 meadow	1 ha 24 a	181	26/08/2010
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,512	23/12/2010
Tutin, Buče category 4 forest	8,292	338	26/11/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.3	173	41,779	24/12/2010
NBGD, Milentija Popovića 5b, apartment I S2 no.5	171	41,283	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 no.9	175	42,273	24/12/2010
Tutin, Ostrovica, forest, field and pasture	110,782	601	30/07/2012
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	328	27/09/2012
Mur, Novi Pazar, forest, field and orchard	3,496	4,379	12/07/2011
Budva, category 4 forest	974	4,113	27/05/2011
Prijevor, category 4 forest	1,995	4,838	27/05/2011
Residential building Galathea	925	319,214	21/11/2011
Vranje, field, category 2 vineyard	2,339	1,858	29/11/2013
Prijepolje, Karoševina, saw mill	450	1,126	08/11/2013
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	15/01/2013
Leskovac, Kralja Petra I, commercial building	335	5,863	04/02/2013
Niš, Ivana Milutinovića 30, business premises	438.39	5,614	23/04/2013
Niš, Triglavska 3/1, apartment	79.80	3,609	04/06/2013
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	27,571	09/07/2013
Mladenovac, field, category 3 forest	1,142	506	18/07/2013
Niš, Bulevar 12. februara, warehouse, ancillary facility	2,062	45,931	31/07/2013
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	25,071	22/11/2013
Total II		770,144	

Properties acquired in lieu of debt collection after December 30, 2013 – amounts excluded from the calculation of reserves from profit in accordance with the relevant NBS decision

Property	Area in m^2	Value	Acquisition Date
Beograd, Resavska 29, building	1,944	404,637	03/06/2014
Beograd, Resavska 31, building	3,411	697,131	03/06/2014
Zemun, Cara Dušana 130, factory complex	6,876	243,235	16/06/2014
Valjevo, Rađevo selo, warehouse	394	483	11/06/2014
Total III		1,345,486	

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

32. OTHER ASSETS (Continued)

Equipment acquired in lieu of debt collection in prior periods (12 months before)

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	45,243	11/06/2012
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	34,701	31/07/2012
Paraćin, coffee roasting line	11,018	31/12/2012
Vranić, equipment, production line	10,843	09/07/2013
Total IV	101,805	

Equipment acquired Equipment acquired in lieu of debt collection after December 30, 2013 – amounts excluded from the calculation of reserves from profit in accordance with the relevant NBS decision

Description	Value	Acquisition Date
Movables (installation materials, metal shelving)	1,939	13/05/2014
Equipment, inventories of waste materials	2,660	18/07/2014
Total V	**4,599**	

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

Description	Value	Acquisition Date
Peugeot 406, HDI	60	-
Thermal accumulation heater	3	-
Samsung TV set	2	-.
Total VI	**65**	
TOTAL (net book value) I + II+ III+ IV+V+VI	**3,037,312**	

During 2014 the Bank sold seven properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 74,482 thousand (two apartments in Novi Beograd, two apartments in Niš, a commercial building in Niš, a house in Sombor and a commercial and residential building in Grabovica). The total sales price of the aforesaid properties amounted to RSD 83,072 thousand. The Bank does not hold ownership titles for 22 properties. The Bank's management is undertaking all the necessary actions to sell such properties.

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

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

Deposits and other liabilities due to banks, other financial institutions and the central bank comprise:

	December 31, 2014	December 31, 2013
Demand deposits	6,230,123	1,587,917
Term deposits	1,139,880	6,079,898
Borrowings	16,467,781	13,380,370
Expenses deferred at the effective interest rate (deductible item)	(142,034)	(122,469)
Other	47,268	132,826
Balance as at December 31	**23,743,018**	**21,058,542**

Short-term RSD deposits placed by banks were deposited for periods of up to one year at interest rates ranging from 5.7 % to 9.1% per annum. In 2014 the Bank had no liabilities per long-term deposits placed by banks.

The largest portion of demand deposits relates to the transaction RSD deposit of Kompanija Dunav osiguranje a.d., Beograd amounting to RSD 4,822,226 thousand.

Newly enacted regulations define what extraterritorial organization and non-resident are regarded as banks and what as customers for the purposes of balance sheet preparation. This resulted in splitting and presenting the total liabilities per foreign loan facilities obtained in separate line items of the balance sheet, depending on the creditor.

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

	December 31, 2014	December 31, 2013
FEES	5,926,957	5,011,497
GAFF	1,987,345	2,636,768
FM	2,419,166	2,292,842
IF	1,814,374	-
EBRD	4,319,939	3,439,263
Balance at December 31	16,467,781	13,380,370

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

Pursuant to the loan agreements executed with the creditors listed in the table above, the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained. As of December 31, 2014, the Bank was in full compliance with all the contractually defined financial ratios toward the aforelisted foreign creditors.

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

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

	December 31, 2014	December 31, 2013
Corporate customers		
Demand deposits	50,212,715	40,407,356
Other deposits	24,092,376	20,082,972
Borrowings	12,694,050	13,326,230
Earmarked deposits	8,115,734	4,050,221
Deposits for loans approved	674,136	543,924
Interest payable, accrued interest liabilities and other financial liabilities	737,675	1,814,390
Retail customers		
Demand deposits	14,399,711	11,222,105
Savings deposits	183,902,102	168,941,206
Earmarked deposits	2,148,492	1,169,896
Deposits for loans approved	1, 509,090	1,476,736
Interest payable, accrued interest liabilities and other financial liabilities	3,420,497	2,943,262
Other deposits	48,333	41,991
Balance at December 31	301,954,911	266,020,289

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2014, these deposits became interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate applied thereto ranged from 0.25% and 1.5% per annum.

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

In 2014 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between the key policy rate less 4 percentage points for deposits placed up to 7 days to key policy rate less 2.05 percentage points for deposits placed up to a year per annum.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.25% and 2.15% annually for EUR deposits and 1.2% annually for deposits in other currencies.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased by 1.7 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate of 1.09% for other currencies and 2.75% for EUR.

In 2014 short-term deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 0.5% to 1.3% annually.

Long-term deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 1.6% to 1.9% annually.

Retail Customer Deposits

Demand RSD savings deposits of retail customers were placed at the annual interest rate of 0.15%, while foreign currency demand deposits accrued interest at the respective rates of 0.15% and 0.05% for EUR and other currencies per annum.

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

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

Retail Customer Deposits (Continued)

In 2014 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 4.25% to 8.5 % annually and those in foreign currencies at rates from 0.05% to 2.55% annually.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 7.75% to 10.25 annually and those in foreign currencies at rates from 1% to 3.1% annually.

Newly enacted regulations define what extraterritorial organization and non-resident are regarded as banks and what as customers for the purposes of balance sheet preparation. This resulted in splitting and presenting the total liabilities per foreign loan facilities obtained in separate line items of the balance sheet, depending on the creditor.

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

	December 31, 2014	December 31, 2013
LEDIB 1 and 2 (Kingdom of Denmark)	19,602	18,406
Republic of Italy Government	798,788	1,062,640
European Investment Bank (EIB)	5,629,831	5,781,447
European Agency for Reconstruction (EAR)	197,913	158,421
KfW	6,047,916	6,305,316
Balance at December 31	12,694,050	13,326,230

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

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

Pursuant to the loan agreements executed Kreditanstalt fur Wiederaufbau (German Development Bank, abbreviated: KfW), the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained. As of December 31, 2014, the Bank was in full compliance with all the contractually defined financial ratios toward the aforesaid foreign creditor.

35. SUBORDINATED LIABILITIES

	December 31, 2014	December 31, 2013
Foreign currency subordinated liabilities	6,047,915	5,732,105
Other liabilities (accrued interest liabilities)	14,077	13,054
Expenses deferred at the effective interest rate (deductible item)	(25,312)	(33,750)
Balance at December 31	6,036,680	5,711,409

In accordance with the regulations of the National bank of Serbia related to the capital adequacy requirements and implementation of the Basel II Standard, in 2011 the Bank enhanced its core capital by obtaining a subordinated loan from the International Finance Corporation (IFC). The subordinated loan received totaled RSD 6,047,915 thousand, i.e., EUR 50,000 thousand as of December 31, 2014.

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36. PROVISIONS

Provisions relate to:

	December 31, 2014	December 31, 2013
Provisions for off-balance sheet items (Note 14)	568,424	473,647
Provisions for litigations (Note 39.3)	766,556	10,900
Provisions for employee benefits in accordance with IAS 19	305,615	280,585
Balance at December 31	1,640,595	765,132

Movements on the accounts of provisions are provided below:

	2014				2013			
	Provisions for Off- Balance Sheet Items (Note 14)	**Provisions for Litigations (Note 39.3)**	**Provisions for Employee Benefits (IAS 19)**	**Total**	**Provisions for Off- Balance Sheet Items (Note 14)**	**Provisions for Litigations (Note 39.3)**	**Provisions for Employee Benefits (IAS 19)**	**Total**
Balance, January 1	473,647	10,900	280,585	765,132	497,632	1,557,557	276,571	2,331,760
Charge for the year	540,305	755,656	28,172	1,324,133	602,322	13,100	7,637	623,059
Provisions against actuarial gains within equity	-	-	27,779	27,779	-	-	-	-
Release of provisions	-				(49,399)	(1,178,087)	-	(1,227,486)
Reversal of provisions	(445,528)	-	(30,921)	(476,449)	(576,908)	(381,670)	(3,623)	(962,201)
Balance at December 31	568,424	766,556	305,615	1,640,595	473,647	10,900	280,585	765,132

a) Comment on movements on provisions for litigations:

Based on the Belgrade Supreme Appellate Court ruling, in 2014 the Bank had a refund of the amount of RSD 755,656 thousand, which was transferred from the Bank's account for enforced collection in the previous year, in respect of the lawsuit involving the Bank and Ineks Intereksport a.d., Beograd (in bankruptcy). This ruling annulled the previous adjudication of the Commercial Court of Belgrade from 2013 and the case was referred to the first instance court for redeliberation. The Court ruled in favor of the Bank, i.e. the amount claimed shall belong to the Bank until the revised litigation is finalized. The Bank provided for this amount in full.

The Court accepted the Bank's request that the case be split into two separate cases given that the Republic of Serbia filed a lawsuit against the Bank on the same grounds. The total RSD amount of provisions of RSD 755,656 thousand relates to the following lawsuits:

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

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

	December 31, 2014	December 31, 2013
Discount rate	8.75%	11.25%
Salary growth rate within the Bank	2.5%	4%
Employee turnover	5%	5%

The discount rate equaled the previous years' key policy rate of the National Bank of Serbia as of December 31, 2014.

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37. OTHER LIABILITIES

Other liabilities include:

	December 31, 2014	December 31, 2013
Accounts payable	198,960	253,193
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	272,955	54,339
Advances received	32,414	35,964
Accrued interest, fees and commissions	202,557	217,929
Accrued liabilities and other accruals	239,443	662,493
Liabilities in settlement	1,756,755	2,755,271
Dividend payment liabilities	277,367	150,124
Taxes and contributions payable	61,783	21,616
Other liabilities	146,875	107,644
Balance as at December 31	3,189,109	4,258,573

Liabilities in settlement totaling RSD 1,756,755 thousand mostly, in the amount of RSD 727,100 thousand and RSD 699,100 thousand, refer to the liabilities for sale and purchase of foreign currencies in the foreign exchange market and foreign currency liabilities for spot transactions, respectively.

Dividend payment liabilities refer to the liabilities to pay out preferred and convertible share dividend in the amount of RSD 123,900 thousand and liabilities for taxes relating to employees in the amount of RSD 153,468 thousand.

38. EQUITY

38.1 Equity is comprised of:

	December 31, 2014	December 31, 2013
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	20,635,440	16,635,440
Revaluation reserves	2,120,959	1,604,257
Retained earnings	6,755,855	6,687,971
Balance as at December 31	69,546,804	64,962,218

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution. As of December 31, 2014 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

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

	Share Count	
Share Type	**December 31, 2014**	**December 31, 2013**
Ordinary shares	16,817,956	8,709,310
Preferred convertible shares	-	8,108,646
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

Pursuant to the Decision of the Bank' Shareholder Assembly on the 27th Issue of Ordinary Shares through Public Offering without Publishing Prospectus for conversion of preferred shares into ordinary shares, on November 24, 2014, the Bank converted 8,108,646 convertible preferred shares into voting shares. The aforesaid conversion affected the ordinary shares ownership percentages.

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

38. EQUITY (Continued)

The largest portions of the Bank's voting shares are held by the Republic of Serbia (41.74% of ordinary shares) and EBRD, London (24.43% of ordinary shares).

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2014 was as follows:

Shareholder	Share Count	% Interest
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
Invej d.o.o., Beograd	230,000	1.37
East Capital (lux)-Balkan Fund	208,106	1.24
Evropa osiguranje a.d., Beograd in bankruptcy	197,420	1.17
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit bank, a.d., Srbija	150,187	0.89
East Capital(LUX) Eastern Europe	125,408	0.75
UniCredit bank, a.d., Srbija (*custody* account)	125,205	0.74
Stankom co. d.o.o., Beograd	117,535	0.70
Erste bank a.d., Novi Sad	85,700	0.51
Others (1,084 shareholders)	1,089,549	6.48
	16,817,956	100.00

The structure of the Bank's shareholders with preferred shares at December 31, 2014 was as follows:

Shareholder	Share Count	% Interest
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (629 shareholders)	355,420	95.16
	373,510	100.00

Revaluation reserves totaling RSD 2,120,959 thousand (2013: RSD 1,604,257 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,032,462 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 979,977 thousand and actuarial gains of RSD 108,520 thousand.

In 2014 prior years' dividends on preferred shares were paid in the amount of RSD 485,172 thousand (2013: RSD 40,342 thousand).

Within the line items of retained earnings and revaluation reserves adjustments were made to the actuarial gain amount based on the changes to the actuarial assumptions used in the previous period and applied in the current year amounting to RSD 132,132 thousand.

The basic earnings per share totaled RSD 253 or 25.25 % of a common share par value in 2014, whereas in 2013 the basic earnings per share amounted to RSD 468 or 46.75 % of a common share par value. Decrease in the earnings per share percentage in 2014 as compared to 2013 was due to the increase in the number of commons stock (ordinary) shares through conversion of preferred into ordinary shares.

	2014	2013
Profit for the year less preferred share dividend	4,246,824	4,071,705
Weighted average number of shares outstanding	16,817,956	8,709,310
Basic earnings per share (in RSD)	253	468

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

38. EQUITY (Continued)

Diluted earnings per share totaled RSD 253 or 25.25% of a common share par value in 2014, whereas in 2013 the diluted earnings per share amounted to RSD 242 or 24.21% of a common share par value.

	2014	**2013**
Profit for the year less preferred share dividend	4,246,824	4,071,705
Weighted average number of shares outstanding	16,817,956	16,817,956
Diluted earnings per share (in RSD)	253	242

38.2 Tax effects related to the other comprehensive income for the year:

	2014			**2013**		
	Gross	**Tax**	**Net**	**Gross**	**Tax**	**Net**
Increase due to fair value adjustments of equity investments and securities available for sale	695,067	(213,650)	481,417	169,859	-	169,859
Net decease due to actuarial losses	(27,779)	4,167	(23,612)	-	-	-
Valuation of property	(3,472)	634	(2,838)	686,680	(103,002)	583,678
Decrease due to fair value adjustments of equity investments and securities available for sale	(83,726)	40,611	(43,115)	-	-	-
Total	580,090	(168,238)	411,852	856,539	(103,002)	753,537

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

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

	December 31, 2014	**December 31, 2013**
Payment guarantees (Note 4.1.1.)	4,767,131	7,357,476
Performance guarantees (Note 4.1.1.)	7,883,510	5,787,610
Letters of credit	27,709	45,808
Acceptances of bills of exchange	27,185	37,737
Balance as at December 31	12,705,535	13,228,631

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

39.2 The breakdown of commitments is provided below:

	December 31, 2014	**December 31, 2013**
Unused portion of approved payment and credit card loan facilities and overdrafts	9,235,730	9,200,577
Irrevocable commitments for undrawn loans	7,311,860	7,640,316
Other irrevocable commitments	270,207	78,380
Other commitments per contracted value of securities	3,243,647	681,463
Balance as at December 31	20,061,444	17,600,736

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

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

39.3 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal suits filed against the bank in 2014 in the total amount of RSD 766,556 thousand (Note 36).

As of December 31, 2014 contingent liabilities based on legal suits filed against the Bank amounted to RSD 2,894,016 thousand (for 244 cases). The Bank's management anticipates no materially significant losses thereof in the forthcoming period.

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 27,323,175 thousand (for 552 cases with the largest individual claim amounts). The Bank's management anticipates favorable outcome of the most lawsuits.

39.4 Commitments for operating lease liabilities are provided below:

	December 31, 2014	December 31, 2013
Commitments due within one year	450,325	455,767
Commitments due in the period from 1 to 5 years	1,190,071	1,300,046
Commitments due in the period longer than 5 years	230,741	100,511
Total	1,871,137	1,856,324

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

Funds managed on behalf and for the account of third parties are mostly comprised of assets for consignment loans of the Republic of Serbia, the largest portion of which, in the amount of RSD 3,716,372 thousand, relates to the long-term housing loans extended to retail customers. Other managed funds mostly refer to loans approved for agriculture and assets received from foreign grantors for micro loans.

Within other off-balance sheet assets, the Bank, among other things, records custody operations performed for the account of its clients, repo investments in Treasury bills and old FX savings bonds. As per its operating license to perform custody operations, the Bank maintains the financial instruments of its clients on the security accounts, recorded off balance. The Bank takes no credit risk in respect of managed funds.

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
All amounts expressed in thousands of RSD, unless otherwise stated.

40. RELATED PARTY DISCLOSURES

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

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

Related party transactions with subsidiaries were performed at arm's length.

A . Balance as at December 31, 2014

RECEIVABLES

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	6,442	862	-	7,304	-	7,304
Komercijalna banka a.d., Banja Luka	604,792	-	3,443	608,235	-	608,235
KomBank INVEST a.d., Beograd	-	1	3	4	197	201
Total:	611,234	863	3,446	615,543	197	615,740

LIABILITIES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	117,835	-	1,689	119,524
Komercijalna banka a.d., Banja Luka	10,831	-	-	10,831
KomBank INVEST a.d., Beograd	9,757	3	-	9,760
Total:	138,423	3	1,689	140,115

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Dividend Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
Komercijalna banka a.d., Budva	12,674	2,122	120,689	-	(1,317)	134,168
Komercijalna banka a.d., Banja Luka	10,058	1,289	-	-	(1,252)	10,095
KomBank INVEST a.d., Beograd	-	56	-	(25)	-	31
Total:	22,732	3,467	120,689	(25)	(2,569)	144,294

Komercijalna banka a.d., Beograd realized net foreign exchange gains in the amount of RSD 202 thousand (2013: net foreign exchange losses of RSD 1,189 thousand) from related party transactions.

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

40. RELATED PARTY DISCLOSURES (Continued)

B . Balance as at December 31, 2013

RECEIVABLES

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	430,157	825	4,253	435,235	-	435,235
Komercijalna banka a.d., Banja Luka	232,271	-	2,646	234,917	343,926	578,843
KomBank INVEST a.d., Beograd	-	1	-	1	200	201
Total:	662,428	826	6,899	670,153	344,126	1,014,279

LIABILITIES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	147,914	-	1,601	149,515
Komercijalna banka a.d., Banja Luka	9,228	-	-	9,228
KomBank INVEST a.d., Beograd	12,940	13	-	12,953
Total:	170,082	13	1,601	171,696

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Dividend Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
Komercijalna banka a.d., Budva	4,414	1,548	387,597	-	(831)	392,728
Komercijalna banka a.d., Banja Luka	2,639	628	-	(390)	(293)	2,584
KomBank INVEST a.d., Beograd	-	47	-	(948)	-	(901)
Total:	7,053	2,223	387,597	(1,338)	(1,124)	394,411

Komercijalna banka a.d., Beograd incurred net foreign exchange losses in the amount of RSD 1,189 thousand in 2013 (2012: RSD 4,662 thousand) from related party transactions.

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

	December 31, 2014	December 31, 2013
Gross remunerations		
Executive Board	78,485	83,788
Net remunerations		
Executive Board	67,031	71,179
Gross remunerations		
Board of Directors and Audit Committee	30,540	26,845
Net remunerations		
Board of Directors and Audit Committee	19,344	17,276

The Bank approved loans to the members of the Bank's Executive Board, Board of Directors and Audit Committee in the total amount of RSD 112,637 thousand (2013: RSD 119,725 thousand).

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

41. EVENTS AFTER THE REPORTING PERIOD

At its session held on January 26, 2015 the Bank's Shareholder Assembly enacted Decision on Adopting the Strategy and Business Plan for 2015 – 2017 Period.

In accordance with the Decision on Measures for Preservation of Financial System Stability in relation to loans indexed to foreign currency (the "Decision") issued by the National Bank of Serbia on February 24, 2015, the Bank assessed and calculated potential effects in respect of loans indexed to CHF. According to the aforesaid calculation, the Bank assessed that potential adverse effects, i.e., losses, in this respect will total up to RSD 110 million.

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual asset/liability count performed as of December 31, 2014, the Bank had unreconciled outstanding item statements totaling RSD 11,007 thousand. Statements unreconciled with 40 customers mostly relate to the clients contesting the amount or the manner of calculation of interest and fees, those with accounts blocked or those contesting the amounts outstanding as per their respective reorganization plans.

Unrealized Dividends

Unrealized dividends payable in 2015 amount to:

- RSD 538,753 thousand for 2014 (6.29 % of the nominal value of preferred shares).
- RSD 123,900 thousand for 2013 (9.91% of the nominal value of preferred shares).

42. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
USD	99.4641	83.1282
EUR	120.9583	114.6421
CHF	100.5472	93.5472