KOMERCIJALNA BANKA A.D., BEOGRAD

Unconsolidated Financial Statements
Year Ended December 31, 2015
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 unconsolidated financial statements of Komercijalna banka A.D., Beograd (hereinafter: the "Bank"), enclosed on pages 2 to 102, which comprise the statement of financial position as of December 31, 2015 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 Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of unconsolidated 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 unconsolidated financial statements based on our audit. We conducted our audit in accordance with the Law on Audit of the Republic of Serbia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. In accordance with the Law on Audit of the Republic of Serbia and Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the accompanying unconsolidated annual business report for the year 2015 with the Bank's unconsolidated financial statements for the same financial year. In our opinion, the financial information disclosed in the Bank's unconsolidated annual business report for 2015 is consistent with its audited unconsolidated financial statements for the year ended December 31, 2015.

(Continued)

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 (Continued)

Other Matter

As disclosed in Note 3(a) to the unconsolidated financial statements, the Bank is a parent entity and its consolidated financial statements prepared in accordance with the International Financial Reporting Standards have been issued separately. The consolidated financial statements of the Bank as of and for the year ended December 31, 2015 were audited by us and our audit report dated April 6, 2016 expressed an unqualified opinion.

Belgrade, April 6, 2016

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

STATEMENT OF THE FINANCIAL POSITION
As of December 31, 2015
(Thousands of RSD)

	Note	2015	2014
ASSETS			
Cash and cash funds held with the central bank	19	63,523,715	68,547,389
Financial assets at fair value through profit and loss, held for trading	20	851,056	121,634
Financial assets available for sale	21	127,173,383	95,481,249
Financial assets held to maturity	22	-	51,442
Loans and receivables due from banks and other financial institutions	23	16,844,000	34,737,605
Loans and receivables due from customers	24	162,742,565	185,377,035
Investments in subsidiaries	25	5,480,888	5,480,888
Intangible assets	26	216,830	405,774
Property, plant and equipment	27	6,139,572	6,329,077
Investment property	28	2,744,026	2,581,144
Current tax assets	29	37,017	73,835
Non-current assets held for sale and assets from discontinued operations	31	63,314	84,227
Other assets	32	6,040,483	6,990,225
Total assets		391,856,849	406,261,524
LIABILITIES AND EQUITY			
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	17,159,317	23,743,018
Deposits and other liabilities due to customers	34	300,005,903	301,954,911
Subordinated liabilities	35	6,077,962	6,036,680
Provisions	36	2,109,020	1,640,595
Deferred tax liabilities	18.3; 30.2	127,545	150,407
Other liabilities	37	4,920,368	3,189,109
Total liabilities		330,400,115	336,714,720
Equity	38		
Issued capital and share premium		40,034,550	40,034,550
Profit		179,550	6,755,855
Loss		(6,299,631)	-
Reserves		27,542,265	22,756,399
Total equity attributable to the owners of the Bank		61,456,734	69,546,804
Total liabilities and equity		391,856,849	406,261,524

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 April 6, 2016.

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

Jelena Đurović	Alexander Picker
Member of Executive Board	Executive Board Chairman

INCOME STATEMENT
Year Ended December 31, 2015
(Thousands of RSD)

	Note	2015	2014
Interest income	8	18,856,309	21,224,379
Interest expenses	8	(5,326,500)	(7,925,793)
Net interest income		13,529,809	13,298,586
Fee and commission income	9	6,004,106	5,677,040
Fee and commission expenses	9	(1,104,159)	(959,283)
Net fee and commission income		4,899,947	4,717,757
Net gains on the financial assets held for trading	10	3,186	6,076
Net gains/(losses) on the financial assets available for sale	11	(8,664)	51,282
Net foreign exchange losses and negative currency clause effects	12	(13,439)	(205,943)
Other operating income	13	460,419	569,191
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	14	(13,008,526)	(2,725,389)
Total operating income		5,862,732	15,711,560
Staff costs	15	(4,121,590)	(4,211,489)
Depreciation and amortization charge	16	(797,401)	(844,632)
Other expenses	17	(7,357,899)	(5,897,850)
(Loss) / profit before taxes	38	(6,414,158)	4,757,589
Gains on created deferred tax assets and decrease in deferred tax liabilities	18.1	114,554	47,547
Losses decrease in deferred tax assets and created deferred tax liabilities	18.1	(27)	(19,559)
(Loss) / profit for the year		(6,299,631)	4,785,577
Earnings per share			
Basic earnings per share		(0.376)	0.253
Diluted earnings per share		(0.376)	0.253

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These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 6, 2016.

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

Jelena Đurović
Member of Executive Board

Alexander Picker
Executive Board Chairman

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2015
(Thousands of RSD)

	Note	2015	2014
(Loss) / profit for the year		(6,299,631)	4,785,577
Other comprehensive income			
Decrease in revaluation reserves in respect of intangible assets, property, plant and equipment	38.3	(234)	(3,472)
Actuarial losses	36; 38.3	(34,552)	(27,779)
Net increase from the fair value adjustment of equity investments and securities available for sale	38.3	645,763	611,341
Losses from taxes related to the other comprehensive income	38.3	(91,665)	(168,238)
Other comprehensive income for the year, net of taxes		519,312	411,852
Total comprehensive income for the year		(5,780,319)	5,197,429

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These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on April 6, 2016.

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

Jelena Đurović
Member of Executive Board

Alexander Picker
Executive Board Chairman

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2015
(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						
Liabilities for dividends for preferred shares	-	-	-	-	(604,620)	(604,620)
Liabilities for 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.

STATEMENT OF CHANGES IN EQUITY (Continued)
Year Ended December 31, 2015
(Thousands of RSD)

	Issued Capital	Share Premium	Revaluation Reserves	Reserves from Profit and Other Reserves	Retained Earnings/ Accumulated Losses	Total
Balance at January 1, 2015	17,191,466	22,843,084	2,120,959	20,635,440	6,755,855	69,546,804
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(6,299,631)	(6,299,631)
Transfer of 2015 profit portion to reserves	-	-	-	4,300,000	(4,300,000)	-
	-	-	-	4,300,000	(10,241,043)	(6,299,631)
Other comprehensive income for the year, net of income tax						
Gains from the realized reserves (depreciation/amortization effect)	-	-	(33,446)	-	33,446	-
Decrease in revaluation reserves from property, plant and equipment	-	-	(234)	-	-	(234)
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	645,763	-	-	645,763
Actuarial losses (Note 36)	-	-	(34,552)	-	-	(34,552)
Tax effects of other comprehensive income	-	-	(91,665)	-	-	(91,665)
Other comprehensive income for the year, net of tax	-	-	485,866	-	33,446	519,312
Total comprehensive income for the year	-	-	485,866	4,300,000	(10,566,185)	(5,780,319)
Transactions with equity holders, recognized directly in equity						
Liabilities for dividends for preferred shares	-	-	-	-	(1,962,751)	(1,962,751)
Liabilities for employee share in profit	-	-	-	-	(347,000)	(347,000)
	-	-	-	-	(2,309,751)	(2,309,751)
Balance at December 31, 2015	17,191,466	22,843,084	2,606,825	24,935,440	(6,120,081)	61,456,734

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., April 6, 2016.

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

Jelena Đurović
Member of Executive Board

Alexander Picker
Executive Board Chairman

STATEMENT OF CASH FLOWS
Year Ended December 31, 2015
(Thousands of RSD)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**24,993,470**	**26,173,313**
Interest receipts	18,907,936	20,196,420
Fee and commission receipts	5,905,480	5,661,699
Receipts of other operating income	176,478	204,599
Dividend receipts and profit sharing	3,576	110,595
Cash used in operating activities	**(17,173,857)**	**(19,051,974)**
Interest payments	(5,916,977)	(8,072,315)
Fee and commission payments	(1,107,769)	(960,358)
Payments to, and on behalf of employees	(4,091,120)	(4,003,672)
Taxes, contributions and other duties paid	(786,499)	(798,934)
Payments for other operating expenses	(5,271,492)	(5,216,695)
Net cash inflows from operating activities prior to changes in loans and deposits	**7,819,613**	**7,121,339**
Decrease in loans and increase in deposits received and other liabilities	**25,553,710**	**32,605,699**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	25,553,710	5,760,091
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	-	26,845,608
Increase in loans and decrease in deposits received and other liabilities	**(10,334,942)**	**(4,633,940)**
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	(3,027,338)	(4,633,940)
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	(7,307,604)	-
Net cash generated by operating activities before income taxes	**23,038,381**	**35,093,098**
Dividends paid	(403)	(485,151)
Net cash generated by operating activities	**23,037,978**	**34,607,947**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	**28,572,615**	**18,126,491**
Proceeds from investment securities	28,543,487	18,117,937
Proceeds from the sales of intangible assets, property, plant and equipment	27,522	8,554
Proceeds from the sales of investment property	1,606	-
Cash used in investing activities	**(56,331,077)**	**(49,181,554)**
Cash used for investment securities	(55,963,431)	(48,706,989)
Cash used for the purchases of intangible assets, property, plant and equipment	(367,646)	(474,565)
Net cash used in investing activities	**(27,758,462)**	**(31,055,063)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**120,246,775**	**208,836,248**
Inflows from the borrowings	120,246,775	208,836,248
Cash used in financing activities	**(124,556,276)**	**(208,645,771)**
Cash used in the repayment of borrowings	(124,556,276)	(208,645,771)
Net cash generated by financing activities	**-**	**190,477**
Net cash used in financing activities	**(4,309,501)**	-
TOTAL CASH INFLOWS	199,366,570	285,741,751
TOTAL CASH OUTFLOWS	(208,396,555)	(281,998,390)
NET CASH INCREASE	**-**	**3,743,361**
NET CASH DECREASE	**(9,029,985)**	**-**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**45,160,177**	**40,297,749**
FOREIGN EXCHANGE GAINS	97,472	1,201,216
FOREIGN EXCHANGE LOSSES	-	(82,149)
CASH AND CASH EQUIVALENTS, END OF YEAR	**36,227,664**	**45,160,177**

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 April 6, 2016.

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

Jelena Đurović	Alexander Picker
Member of Executive Board	Executive Board Chairman

1. BANK'S ESTABLISHMENT AND ACTIVITY

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

The principal holders of voting shares of 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, 2015, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 24 branches and 209 sub-branches in the territory of the Republic of Serbia (December 31, 2014: 24 branches and 220 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2015, the Bank had 2,877 employees (December 31, 2014: 2,906 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2015 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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

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

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of 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. New and Revised IFRS Mandatorily Effective in the Current Period

In the current year the Bank applied the following amendments and revisions to IFRS issued by the International Accounting Standards Board ("IASB") mandatorily effective for the accounting periods beginning on or after January 1, 2015:

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

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

2.2. New and Revised IFRS Mandatorily Effective in the Current Period (Continued)

- Amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle (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). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

- Amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle (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). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

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 for the financial year ended December 31, 2015:

- 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. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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 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).

- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).

- 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).

- 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 IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

- Amendments resulting from Annual Improvements to IFRSs 2012-2014 Cycle (IFRS 5, IFRS 7 and IAS 19) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2016).

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

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

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

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

IFRS 9 *"Financial Instruments"*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

IFRS 15 *"Revenue from Contracts with Customers"*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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" (Continued)*

- Step 1: Identify the contract(s) with a customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligations in the contract, and
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 11 "*Accounting for Acquisitions of Interests in Joint Operations"*

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 "Income Taxes" regarding the recognition of deferred taxes at the time of acquisition and IAS 36 "Impairment of Assets" regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January1, 2016. Management of the Bank anticipates that the application of these amendments to IFRS 11 may have an impact on the Bank's financial statements in future periods should such transactions arise.

Amendments to IAS 1 *"Disclosure Initiative"*

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. Management of the Bank does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortization"*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Bank uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. Management of the Bank believes that that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and, accordingly, does not anticipate the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Bank's financial statements.

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

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

Amendments to IAS 16 and IAS 41 *"Agriculture: Bearer Plants"*

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.The application of these amendments to IAS 16 and IAS 41 will have a material impact on the Bank's financial statements as the Bank is not engaged in agricultural activities.

Amendments to IFRS 10, IFRS 12 and IAS 28 "*Investment Entities: Applying the Consolidation Exception"*

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves. Management of the Bank does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Bank's financial statements, as the Bank is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management of the Bank does not anticipate that the application of these amendments will have a material effect on the Bank's financial statements.

2.4. Going Concern

The Bank's financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate for an indefinite period in the foreseeable future.

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

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.

(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 statement of comprehensive income. 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
	2015	2014
USD	111.2468	99.4641
EUR	121.6261	120.9583
CHF	112.5230	100.5472
JPY	0.92400	0.830986

(c) Interest

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(e) Net Trading Income

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

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

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

g) Dividends

Income from dividends is recognized when the right of shareholders to receive dividends is established. 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 Taxes

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 in which settlement or refund of significant deferred tax assets or liabilities is expected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Tax Expenses (Continued)

(ii) Deferred Income Taxes (Continued)

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

(iii) Other Taxes and Contributions

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

(j) Financial Assets and Liabilities

(i) Recognition

The Bank initially recognizes loans and receivables, deposits, borrowings and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognized on the trade 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. The Bank derecognizes a liability when the liability is settled, cancelled or ceded.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(iv) Offsetting

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

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

(v) Amortized Cost Measurement

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

(vi) Fair Value Measurement

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

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

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

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(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 RSD loans which are hedged using a contractual currency clause linked to the RSD to EUR exchange rate, to another foreign currency or consumer price index are converted into 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 at other than fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-Maturity Financial Assets

Financial assets held to maturity 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.

Available-for-sale financial assets for which there is no active market 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 assets 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 applied 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%-75.18%

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Intangible Assets (Continued)

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of Non-Financial Assets (Continued)

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.

(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 the Republic of Serbia 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 the amounts 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, 2015 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Equity and Reserves

The Bank's equity consists of founders' shareholding, shares of subsequent issues, share issue premium, profit reserves, revaluation reserves, retained earnings and current year's profit or loss.

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

(y) Earnings per Share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

(z) Segment Reporting

An operating segment is the Bank's component involved in business activities earning income and incurring expenses (including income and expenses arising from transactions with the other Bank's components) whose business results are regularly examined by the Bank's management (being the chief operating decision maker) in order to decide on the resources allocated to this segment and determine the segment's performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments," the Bank discloses information on the performance of segments thus providing the users of the financial statements with addition information on income and expenses arising from its key business activities.

Upon determining operating segments, the Bank uses the following:

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

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued risk identification, measurement, monitoring, minimizing and control, i.e., setting of risk limits and reporting on risks 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 risks 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.

4. RISK MANAGEMENT (Continued)

The Bank implements Basel II standards and permanently monitors all the announcement of and amendments to the effective regulations, analyzes 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 analyzes 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.

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 stress 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.

4. RISK MANAGEMENT (Continued)

Competencies

The Board of Directors is competent and responsible for adopting risk management strategy and policies as well as the capital management strategy, for establishment of internal control system and supervision of its efficiency, supervision of the work of the Executive Board, adoption of quarterly risk management reports, adoption of the Disaster Recovery Plan and execution of the process of internal capital adequacy assessment.

The Executive Board is competent and responsible for implementation of the Bank's risk management strategy and policies, capital management strategy through adoption of risk management procedures, i.e., procedures for identifying, measuring and assessing risk, ensures their implementation and reports to the Board of Directors on such activities. In addition, the Executive Board assesses the risk management system and at least quarterly reports to the Board of Directors on the risk exposure levels and risk management and decides, after obtaining an approval of the Board of Directors, on each increase in the Bank's exposure to an entity related to the Bank and notifies the Board of Directors thereof.

The Audit Committee is authorized and responsible for assessment and monitoring of application and adequate implementation of the adopted risk management strategies and policies and internal control system. The Audit Committee reports at least monthly to the Board of Directors on its activities and identified irregularities and propose how they should 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 on-balance sheet receivables, payables and off-balance sheet items, and proposes measures for managing interest rate 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 rate and currency risks, analyzes the credit portfolio and suggests adequate measures to the Executive Board.

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

The Risk Management Function 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 involved in managing 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 with them. 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, of which it prepares a report and submits it to the Executive Board and Board for Monitoring of the Bank's Operations.

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 a comprehensive assessment of risks in the Bank's particular operations, products, activities and processes.

4. RISK MANAGEMENT (Continued)

Risk Management Process (Continued)

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

Risk monitoring and control is based on limits that are set by the 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 risks, 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.

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 – authorization limits.

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.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

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.

The basic principles of credit risk management are as follows:

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

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

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio risk analysis, support in loan approval and loan impairment procedure 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 measurement of adequacy of reserves for estimated losses 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.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

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, geographic areas and the like, country 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.

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.

Allowance for impairment of loans is intended to ensure reasonable, cautious and timely registering of losses on loan impairment, 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.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

Downgrade Risk (Continued)

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 operations or from collateral foreclosure if it is assessed that a loan can be realistically settled from such assets.

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

Individual Assessment

The Bank assesses impairment of each individually significant loan 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, an *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 where 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 into the 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 Probable Losses on Off-Balance Sheet Items

Assessment of provisions for probable 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.

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2015 and 2014 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, 2015		December 31, 2014	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**411,139,949**	**374,055,274**	**411,491,955**	**387,248,783**
Cash and cash funds held with the central bank	63,523,715	63,523,715	68,547,389	68,547,389
Loans and receivables due from banks and other financial institutions	17,243,760	16,844,000	35,106,194	34,737,605
Loans and receivables due from customers	199,026,572	162,742,565	208,462,012	185,377,035
Financial assets	128,122,478	128,024,439	95,774,547	95,654,325
Other assets	3,223,424	2,561,967	3,601,813	2,932,429
II. Off-balance sheet items	**28,081,278**	**27,541,154**	**30,165,789**	**29,597,365**
Payment guarantees (Note 39.1)	4,702,206	4,548,918	4,767,131	4,626,118
Performance bonds (Note 39.1)	6,503,652	6,392,930	7,883,510	7,734,385
Irrevocable commitments	16,303,173	16,303,173	16,715,960	16,715,960
Other items	572,247	296,133	799,188	520,902
Total (I+II)	**439,221,227**	**401,237,840**	**441,657,744**	**416,846,148**

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

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

December 31, 2015

	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	-	-	-	-	-	-	2,296,663	2,296,663	15,620,284
Loans matured and not provided for	-	-	-	-	-	-	136,129	136,129	1,223,716
Group-level impaired	37,371,641	17,297,093	5,589,643	6,407,131	6,158,650	72,824,158	87,419,835	160,243,993	399,760
Individually impaired	952,661	-	82,542	-	994,392	2,029,595	34,320,192	36,349,787	-
Total	**38,324,302**	**17,297,093**	**5,672,185**	**6,407,131**	**7,153,042**	**74,853,753**	**124,172,819**	**199,026,572**	**17,243,760**
Impairment allowance	**888,843**	**984,660**	**409,008**	**721,661**	**1,049,869**	**4,054,041**	**32,229,966**	**36,284,007**	**399,760**
Group-level impairment allowance	634,395	984,660	390,670	721,661	903,295	3,634,681	16,134,158	19,768,839	399,760
Individual impairment allowance	254,448	-	18,338	-	146,574	419,360	16,095,808	16,515,168	-
Net carrying value	**37,435,459**	**16,312,433**	**5,263,177**	**5,685,470**	**6,103,173**	**70,799,712**	**91,942,853**	**162,742,565**	**16,844,000**

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**

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. Fully (100%) impaired loans and receivables were subject to group-level impairment.

In 2015 the Bank was subject to the special diagnostic study ("SDS") organized by the National Bank of Serbia. As a result of the said study conducted under the methodology comparable to the methodology of the European Central Bank, as well as of the performed due diligence project as part of the privatization process, impairment allowance items were significantly increased during the entire year (particularly in Q4 2015).

Loans and 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.

Loans and Receivables not Matured but not Impaired

Loans and receivables not matured but 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
December 31, 2015
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, 2015	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	2,296,663	2,296,663	15,620,284
Medium (IR 3)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**2,296,663**	**2,296,663**	**15,620,284**

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**

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

December 31, 2015	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Business	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	-	-	1,223,716
31 - 90 days past due	-	-	-	-	-	-	-	-	-
Over 90 days past due	-	-	-	-	-	-	136,129	136,129	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**136,129**	**136,129**	**1,223,716**

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**

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 rescheduled and/or restructured loans due to the difficulties in liability settlement as due on the part of the customers. Takin into account such difficulties, the Bank decides on changing the terms and conditions defined by the original loan agreements to facilitate debtors' liability settlement.

Rescheduling of receivables is performed for debtors with currently mismatching cash inflows and outflows, yet whose financial indicators have not deteriorated 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 facility (loan subaccount), i.e. not including all the receivables due from the same debtor.

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.

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.2. Loans with Altered Initially Agreed Terms (Continued)

The total amount of loans and receivables with altered initially agreed terms as of December 31, 2015 and 2014 is presented in the tables below. The amounts stated are presented in the gross and net carrying amounts (after the impairment effects).

Loans with altered initially agreed terms

	Rescheduled				Restructured			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Housing loans	701,159	604,784	596,943	556,173	402,532	312,820	145,546	137,391
Cash loans	163,801	150,349	224,193	210,710	40,604	23,329	40,721	28,648
Agricultural loans	56,390	42,715	64,211	55,919	28,824	25,274	32,673	29,229
Other loans	4,104	3,994	12,407	11,953	343	-	506	375
Micro businesses	251,722	191,434	200,575	188,381	430,977	358,101	401,880	341,390
Total retail	**1,177,176**	**993,276**	**1,098,329**	**1,023,136**	**903,280**	**719,524**	**621,326**	**537,033**
Corporate customers	26,718,077	22,934,734	23,582,662	23,058,599	26,697,582	13,421,096	16,995,750	12,581,987
Total	**27,895,253**	**23,928,010**	**24,680,991**	**24,081,735**	**27,600,862**	**14,140,620**	**17,617,076**	**13,119,020**

Credit quality of rescheduled loans and receivables, gross

	December 31, 2015			December 31, 2014		
	Loans and receivables	Rescheduled and restructured receivables	%	Loans and receivables	Rescheduled and restructured receivables	%
Not matured and not impaired	2,296,663	-	-	2,313,323	-	-
Matured but not impaired	136,128	-	-	1,557,306	-	-
Group-level impaired	160,243,993	32,211,496	20,10%	166,134,583	23,282,417	14,01%
Individually impaired	36,349,788	23,284,619	64,06%	38,456,800	19,015,650	49,45%
Total	**199,026,572**	**55,496,115**	**27,88%**	**208,462,012**	**42,298,067**	**20,29%**
Impairment allowance	**36,284,007**	**17,427,485**	**48,03%**	**23,084,977**	**5,097,313**	**22,08%**
Group-level impairment allowance	19,768,839	7,929,702	40,11%	12,095,209	401,437	3,32%
Individual impairment allowance	16,515,168	9,497,783	57,51%	10,989,768	4,695,876	42,73%
Securitized with collaterals	**183,160,276**	**47,316,438**	**25,83%**	**180,511,165**	**35,538,202**	**19,69%**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015
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:

	Loans and receivables				Off-balance sheet items			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Finance and insurance sector	**2,952,236**	**2,846,770**	**10,643,439**	**10,537,316**	**204,873**	**204,873**	**292,092**	**292,091**
Corporate and public company sector	**100,623,054**	**84,848,926**	**119,316,219**	**108,947,880**	**18,107,303**	**17,586,169**	**19,936,661**	**19,373,087**
Agriculture	5,525,589	5,259,001	6,573,945	6,306,710	710,580	448,349	558,384	291,839
Processing industry	43,609,777	35,686,195	52,531,430	46,191,776	3,554,769	3,537,971	4,025,921	3,978,542
Power industry	3,587,386	3,587,187	6,329,773	6,329,319	627,929	627,804	921,693	921,592
Construction industry	3,681,233	2,912,944	4,738,069	4,348,898	5,895,356	5,807,050	7,488,399	7,376,936
Wholesale and retail	31,300,203	26,407,557	35,253,379	32,288,190	5,297,155	5,182,149	5,238,480	5,118,562
Services industries	10,613,568	9,285,420	11,572,132	11,290,458	981,210	973,804	962,197	950,536
Real estate business	2,305,298	1,710,622	2,317,491	2,192,529	1,040,304	1,009,042	741,587	735,080
Entrepreneurs	**2,819,742**	**2,525,762**	**2,768,358**	**2,492,689**	**380,819**	**377,367**	**429,318**	**425,429**
Public sector	**5,504,927**	**5,474,840**	**10,943,750**	**10,912,080**	**282,468**	**279,974**	**339,888**	**338,928**
Retail sector	**67,700,711**	**64,696,540**	**65,592,670**	**62,989,218**	**8,526,847**	**8,526,847**	**8,652,116**	**8,652,116**
Non-residents	**13,790,447**	**13,414,088**	**17,215,508**	**16,870,780**	**421,145**	**421,144**	**105,098**	**105,098**
Other customers	**22,879,215**	**5,779,639**	**17,088,262**	**7,364,677**	**157,823**	**144,780**	**410,616**	**410,616**
Total	**216,270,332**	**179,586,565**	**243,568,206**	**220,114,640**	**28,081,278**	**27,541,154**	**30,165,789**	**29,597,365**

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.

NOTES TO THE FINANCIAL STATEMENTS
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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:

	Loans and receivables				Off-balance sheet items			
	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Serbia	201,240,877	164,949,362	219,294,893	196,202,331	27,643,648	27,103,525	30,046,297	29,477,873
Montenegro	1,259,947	1,258,062	156,391	154,536	366,343	366,343	1,708	1,708
Bosnia and Herzegovina	602,597	602,191	756,552	756,216	44	44	-	-
European Union	9,406,154	9,403,823	14,803,936	14,801,605	34,580	34,580	64,244	64,244
USA and Canada	687,851	393,549	398,411	135,285	27,719	27,719	45,916	45,916
Other countries	3,072,906	2,979,578	8,158,023	8,064,667	8,944	8,943	7,624	7,624
Total	**216,270,332**	**179,586,565**	**243,568,206**	**220,114,640**	**28,081,278**	**27,541,154**	**30,165,789**	**29,597,365**

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, 2015		December 31, 2014	
	Gross	Net	Gross	Net
Financial assets:	**128,122,478**	**128,024,439**	**95,774,547**	**95,654,325**
- at fair value through profit and loss, held for trading (Note 20)	851,056	851,056	121,634	121,634
- available for sale (Note 21)	127,173,753	127,173,383	95,481,744	95,481,249
- held to maturity (Note 22)	97,669	-	171,169	51,442
Total	**128,122,478**	**128,024,439**	**95,774,547**	**95,654,325**

Financial assets at fair value through profit and loss relate to the Republic of Serbia's old foreign currency savings bonds, the Republic of Serbia coupon 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 market 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, i.e., when available prices are not regularly changed and significant trading volumes have not be recorded, 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 as of December 31, 2015 and were fully provided for.

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 required 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 and receivables;
- 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 independent 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 potential 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:

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)

4.1.5. Credit Risk Hedges (Collaterals) (Continued)

Loans and receivables due from customers secured with collaterals

	December 31, 2015					December 31, 2014				
	Properties	Deposits	Guarantees	Other collaterals	Total	Properties	Deposits	Guarantees	Other collaterals	Total
Housing loans	35,134,054	12,377	-	1,398,167	36,544,599	34,382,101	-	-	1,233,637	35,615,739
Cash loans	84,645	309,672	-	8,563,949	8,958,266	97,639	274,274	-	3,242,179	3,614,093
Agricultural loans	3,206,414	18,504	59,870	1,712,754	4,997,541	2,849,789	16,463	73,816	1,321,095	4,261,163
Other loans	13,007	51,640	-	161,602	226,249	19,295	50,511	-	347,213	417,019
Micro business	2,495,833	536,818	-	4,688,339	7,720,990	2,494,280	464,556	-	4,846,869	7,805,705
Total retail loans	**40,933,954**	**929,011**	**59,870**	**16,524,811**	**58,447,645**	**39,843,105**	**805,804**	**73,816**	**10,990,992**	**51,713,717**
Corporate loans	61,009,322	1,332,239	7,839,066	54,532,004	124,712,631	58,205,326	1,100,476	8,680,493	60,811,153	128,797,448
Total	**101,943,276**	**2,261,250**	**7,898,936**	**71,056,815**	**183,160,276**	**98,048,431**	**1,906,280**	**8,754,308**	**71,802,145**	**180,511,165**

Note: A portion of housing loans secured with mortgages assigned over real estate properties is insured with the National Corporation for Housing Loans Insurance (2015: RSD 28.6 billion; 2014: 27.4 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) spread.

Breakdown of housing loans per LTV ratio spread

	December 31, 2015	December 31, 2014
Below 50%	5,090,779	5,301,359
From 50% to 70%	7,881,657	7,787,807
From 71% to 100%	13,061,001	14,119,316
From 101% to 150%	7,032,764	5,510,500
Above 150%	3,233,792	2,368,052
Other	2,060,453	2,755,563
Total exposure	**38,360,446**	**37,842,597**
Average LTV ratio	**69.51%**	**69.98%**

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, 2015	December 31, 2014
Residential premises	81,622	204,802
Business premises	2,608,385	2,758,640
Equipment	107,017	106,469
Land and forests	160,021	155,737
Total	**2,957,046**	**3,225,648**
Accumulated depreciation	(653,745)	(188,336)
Net book value	**2,303,301**	**3,037,312**

In 2015, in the process of debt collection the Bank foreclosed collaterals totaling RSD 154,501 thousand (2014: RSD 2,313,063 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 that 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, and 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 externally prescribed liquidity ratio limits:

	Liquidity Ratio 2015	Liquidity Ratio 2014	Rigid/Cash Liquidity Ratio 2015	Rigid/Cash Liquidity Ratio 2014
As at December 31	2.73	2.84	2.51	2.52
Average for the period	3.11	3.29	2.82	2.88
Maximum for the period	3.97	4.40	3.62	4.09
Minimum for the period	1.85	1.70	1.65	1.51

During 2015 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.

Compliance with last day liquidity ratio limits internally defined:

	Limits	2015	2014
GAP up to 1 month / Total assets	Max (10%)	5.54%	10.93%
Cumulative GAP up to 3 months / Total assets	Max (20%)	6.84%	12.08%

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, 2015

	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	63,523,715	-	-	-	-	63,523,715
Loans and receivables due from banks and other financial institutions	14,615,376	1,126,873	3,652	1,098,099	-	16,844,000
Loans and receivables due from customers	15,807,775	8,391,445	36,648,636	66,823,364	35,071,345	162,742,565
Financial assets (securities)	4,925,002	10,249,631	40,165,116	70,085,325	2,599,365	128,024,439
Other assets	2,168,378	-	-	393,589	-	2,561,967
Total	**101,040,246**	**19,767,949**	**76,817,404**	**138,400,377**	**37,670,710**	**373,696,686**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,711,643	1,104,174	3,931,734	7,731,135	1,680,631	17,159,317
Deposits and other liabilities due to customers	166,106,632	21,646,437	80,294,892	29,733,467	2,224,475	300,005,903
Subordinated liabilities	-	-	-	6,077,962	-	6,077,962
Other liabilities	3,699,603	-	897,156	-	-	4,596,759
Total	**172,517,878**	**22,750,611**	**85,123,782**	**43,542,564**	**3,905,106**	**327,839,941**
Net liquidity GAP						
- as of December 31, 2015	**(71,477,632)**	**(2,982,662)**	**(8,306,378)**	**94,857,813**	**33,765,604**	**45,856,745**
- as of December 31, 2014	**(3,769,819)**	**(6,065,212)**	**(17,450,353)**	**41,594,475**	**38,237,797**	**52,546,888**

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

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

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.

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 in this respect.

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

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4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

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

	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	63,523,715	-	-	-	-	63,523,715
Loans and receivables due from banks and other financial institutions	14,616,485	1,126,973	12,907	1,116,435	-	16,872,800
Loans and receivables due from customers	16,697,658	10,016,816	42,658,427	85,902,240	45,084,636	200,359,777
Financial assets (securities)	5,113,448	11,204,504	42,564,165	74,129,886	2,749,372	135,761,375
Other assets	2,168,378	-	-	393,589	-	2,561,967
Total	**102,119,684**	**22,348,293**	**85,235,499**	**161,542,150**	**47,834,008**	**419,079,634**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,716,226	1,191,392	4,250,655	8,386,021	1,822,993	18,367,287
Deposits and other liabilities due to customers	167,031,011	21,958,904	82,561,659	31,786,929	2,378,102	305,716,605
Subordinated liabilities	-	-	-	6,663,977	-	6,663,977
Other liabilities	3,699,603	-	897,156	-	-	4,596,759
Total	**173,446,840**	**23,150,296**	**87,709,470**	**46,836,927**	**4,201,095**	**335,344,628**
Net liquidity GAP						
- as of December 31, 2015	**(71,327,156**	**(802,003)**	**(2,473,971)**	**114,705,223**	**43,632,913**	**83,735,006**
- as of December 31, 2014	**3,644,125**	**(3,836,777)**	**(11,891,739)**	**55,623,843**	**52,081,954**	**95,621,406**

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**

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

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.

4.3. 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 within the banking book, 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 instrument items 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 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 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 risk management is maintaining the acceptable level of interest 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 risk management consists of identification, measurement, minimizing, monitoring, control and interest risk reporting.

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

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)

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

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

Minimizing interest 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 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 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	2015	2014
Relative GAP	Max 15%	1.38%	0.69%
Mismatch ratio	0.75 – 1.25	1.02	1.01

During 2015 the Bank's interest risk ratios were within internally prescribed limits.

The Bank has defined internal limits for interest 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:

	2015	2014
As at December 31	5.23%	8.50%
Average for the year	8.68%	8.06%
Maximum for the year	10.70%	10.86%
Minimum for the year	5.23%	4.82%
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, 2015:

	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	25,890,773	-	-	-	-	25,890,773	37,632,942	63,523,715
Loans and receivables due from banks and other financial institutions	14,507,978	1,126,871	3,651	155,331	11,554	15,805,385	1,038,615	16,844,000
Loans and receivables due from customers	77,872,503	12,871,354	37,449,509	20,425,020	12,239,018	160,857,404	1,885,161	162,742,565
Financial assets (securities)	4,236,527	28,895,691	28,273,260	62,350,380	2,599,364	126,355,222	1,669,217	128,024,439
Other assets	-	-	-	-	-	-	2,561,967	2,561,967
Total	**122,507,781**	**42,893,916**	**65,726,420**	**82,930,731**	**14,849,936**	**328,908,784**	**44,787,902**	**373,696,686**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,610,050	5,203,165	8,322,180	-	23,922	17,159,317	-	17,159,317
Deposits and other liabilities due to customers	174,753,361	19,063,480	75,665,708	26,816,862	1,140,013	297,439,424	2,566,479	300,005,903
Subordinated liabilities	-	-	6,077,962	-	-	6,077,962	-	6,077,962
Other liabilities	-	-	-	-	-	-	4,596,759	4,596,759
Total	**178,363,411**	**24,266,645**	**90,065,850**	**26,816,862**	**1,163,935**	**320,676,703**	**7,163,238**	**327,839,941**
Interest rate GAP:								
- at December 31, 2015	**(55,855,531)**	**18,627,271**	**(24,339,430)**	**56,113,869**	**13,686,001**	**8,232,081**	**37,624,664**	**46,856,745**
- 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**

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4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

4.3.1. Interest Risk (Continued)

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**	**336,025,992**	**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**

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.

Interest Rate Risk

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.
2015		
As at December 31	762,372	(114,096)
Average for the year	562,665	(238,527)
Maximum for the year	762,372	(362,957)
Minimum for the year	362,957	(114,096)
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)

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 RSD 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 asset 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 most significant role therein belongs to the Bank's 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 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 open foreign currency position and position in gold relative to the Bank's regulatory capital.

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

	2015	2014
Total currency risk balance	4,072,802	938,820
Currency risk ratio	10.60%	2.90%
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, 2015

In RSD '000

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,713,773	188,162	1,630,087	199,194	**34,731,216**	-	-	-	28,792,499	**63,523,715**
Loans and receivables due from banks and other financial institutions	8,525,684	3,184,027	1,833,686	1,582,495	**15,125,892**	-	-	-	1,718,108	16,844,000
Loans and receivables due from customers	10,120,993	31,452	-	-	**10,152,445**	106,711,689	129	5,393,075	40,485,227	**162,742,565**
Financial assets (securities)	75,588,030	7,478,087	1,665,663	343,861	**85,075,641**	531,766	-	-	42,417,032	**128,024,439**
Other assets	352,502	90,285	592	34	**443,413**	14	-	-	2,118,540	**2,561,967**
Total	**127,300,982**	**10,972,013**	**5,130,028**	**2,125,584**	**145,528,607**	**107,243,469**	129	**5,393,075**	**115,531,406**	**373,696,686**
Deposits and other liabilities due to banks, other financial institutions and the central bank	16,189,225	132,585	90,466	9,610	**16,421,886**	13,740	-	-	723,691	**17,159,317**
Deposits and other liabilities due to customers	213,522,048	10,120,278	10,272,417	1,996,867	**235,911,610**	1,955,483	5,844	-	62,132,966	**300,005,903**
Subordinated liabilities	6,077,962	-	-	-	**6,077,962**	-	-	-	-	**6,077,962**
Other liabilities	889,733	22,539	71,276	87,092	**1,070,640**	-	-	-	3,526,119	**4,596,759**
Total	**236,678,968**	**10,275,402**	**10,434,159**	**2,093,569**	**259,482,098**	**1,969,223**	**5,844**	**-**	**66,382,776**	**327,839,941**
Net foreign currency position - December 31, 2015	**(109,377,986)**	**696,611**	**(5,304,131)**	**32,015**	**(113,953,491)**	**105,274,246**	**(5,715)**	**5,393,075**	**49,148,630**	**45,856,745**

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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

In RSD '000

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	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 foreign 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**	**51,587,629**	**52,546,888**

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 2015 and 2014 is presented in the table below:

	As of December 31	Average	Maximum	Minimum
2015				
Currency risk	45,544	32,284	179,472	5,924
2014				
Currency risk	45,478	8,712	59,862	610

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.

Operational risk management process is an integral part of the Bank's activities performed at all levels, allowing identification, measurement, mitigation, monitoring and control of and reporting on operational risks in accordance with the regulatory requirements and timeframes. The process in place relies on the reliable methods for measuring operational risk exposures, database on operating losses and updated and accurate 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 performed through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

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

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

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

4.5. The Bank's Investment Risks

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

4. RISK MANAGEMENT (Continued)

4.6. Exposure Risk

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

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

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

The limits defined for the Bank's exposure to a single entity or a group of related entities apply for the Bank's own related parties as well.

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 and control of exposure of an individual receivable to the country risk is based on the internal category of 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.

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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 measured at other than fair value

	December 31, 2015					December 31, 2014	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial assets							
Loans and receivables due from customers	162,742,565	161,561,904			161,561,904	185,377,035	184,544,586
Investment securities held to maturity	-	-			-	51,442	51,442
Financial liabilities							
Deposits and other liabilities due to customers	300,005,903	299,849,674			299,849,674	301,954,911	301,788,878

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, 2015 Total assets/liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	851,056	--	-	851,056
Securities available for sale (RSD)	-	42,150,010	-	42,150,010
Securities available for sale (FX)	-	85,023,373	-	85,023,373
Total	**851,056**	**127,173,383**	**-**	**128,024,439**

	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 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). Level 3 includes all instruments whose fair values are assessed based on unobservable inputs, which have a significant effect on the instrument's fair value assessed.

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, open foreign currency position 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

	2015	2014
Core capital	40,078,298	33,286,532
Supplementary capital	3,909,144	4,593,961
Deductible items	(5,555,355)	(5,555,355)
Capital	**38,432,087**	**32,325,138**
Credit risk-weighted assets	144,531,657	162,919,928
Operational risk exposure	20,679,815	19,093,050
Foreign currency risk exposure	3,752,733	938,917
Capital adequacy ratio (minimum 12%)	**22.70%**	**17.67%**

As of December 28, 2015, the National Bank of Serbia issued the Bank Decision on defined minimum capital and eligible liabilities requirement. As of December 31, 2015, the Bank complied with the defined minimum capital and eligible liabilities requirement as prescribed by NBS.

In the course of 2015 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).

5. USE OF ESTIMATES (Continued)

Critical Accounting Judgments in Applying the Bank's Accounting Policies (Continued)

Valuation of Financial Instruments

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

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

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

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

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

The Bank uses generally accepted 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.

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

6. SEGMENT REPORTING

The Bank has three operating segments – profit centers, which represent strategic Bank's organizational units. Their operations are subject to segment reporting.

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

Corporate Banking	Includes loans, deposits and other transactions with legal entities other than banks
Retail Banking	Includes loans, deposits and other transactions with retail customers - individuals, micro businesses, entrepreneurs and agricultural producers
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

In considering profitability/performance of each segment, in addition to the income and expenses arising from operations with customers, the Bank includes income and expenses arising from inter-segment transactions, calculated using transfer prices determined based on the corresponding market prices (net income/expenses from inter-segment transactions).

The current year's lower profit is partly a result of impairment allowances of loans amounting to RSD 13,008,526 thousand in 2015 (of which RSD 12,631,988 thousand or 97.1% relates to the corporate banking segment).

The amount of operating profit before operating expenses in 2015 was significantly affected by other expenses as well, particularly litigation costs, so that in FY 2015 the Bank incurred a loss on other income and expenses in the amount of RSD 1,022,440 thousand.

Upon preparation of segment reports, operating expenses are divided into direct operating expenses and (under direct operating segment control or directly associated with segment operations) and indirect operating expenses (amounts of these costs are not under direct operating segment control or they cannot be directly associated with segment operations).

Each operating segment is charged direct operating costs related to that particular segment and a portion of indirect operating costs (their allocation to segments is made using appropriate keys for allocation of costs made by cost centers to profit centers).

Direct operating costs at the Bank level amounted to RSD 7,645,919 thousand, representing 70.8% of the total operating expenses. Direct operating costs mostly comprise costs directly associated to the segment operations (staff costs, rental costs, depreciation/amortization charge, advertising and marketing costs, etc.) and to a less extent of costs allocated to the segments based on the relevant management decisions.

The amount of RSD 5,633,246 thousand relates to the direct costs of the retail banking segment (73.68% of the total direct operating expenses) as a result of the large distribution network and a number of employees engaged in retail banking operations.

In FY 2015, despite the stable level of net interest income and net fee and commission income, as a result of the aforesaid high amount of loan impairment allowances, the Bank recorded negative result before taxes (loss) of RSD 6,414,158 thousand.

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6. SEGMENT REPORTING (Continued)

Operating segments report for 2015 is provided below:

	Retail banking	Corporate banking	Investment and Interbank operations	Other	Total
Income and expenses					
Interest income	7,139,614	5,629,550	6,087,145	-	18,856,309
Interest expenses	(2,888,157)	(792,233)	(1,646,110)	-	(5,326,500)
Net interest income	4,251,457	4,837,317	4,441,035		13,529,809
Net inter-segment income/(expenses)	418,841	(2,990,460)	2,571,619	-	-
Net fee and commission income	2,856,272	1,337,960	705,715	-	4,899,947
Profit before impairment allowances	**7,526,570**	**3,184,817**	**7,718,369**	**-**	**18,429,756**
Net impairment allowance (charge)/reversal	(369,263)	(12,631,988)	(7,275)	-	(13,008,526)
Profit before operating expenses	**7,157,307**	**(9,447,171)**	**7,711,094**	**-**	**5,421,230**
Direct operating expenses	(5,633,246)	(1,717,832)	(294,841)	-	(7,645,919)
Foreign exchange gains/(losses), net	-	-	(13,439)	-	(13,439)
Net other income/(expenses)	(153,080)	(872,718)	3,358	-	(1,022,440)
Profit before indirect operating expenses	**1,370,981**	**(12,037,721)**	**7,406,172**	**-**	**(3,260,568)**
Indirect operating expenses	(1,726,360)	(1,107,322)	(319,908)	-	(3,153,590)
Profit/(loss) before taxes	**(355,379)**	**(13,145,043)**	**7,086,264**	**-**	**(6,414,158)**
Assets per segments					
Cash and cash funds held with the central bank	-	-	63,523,715	-	63,523,715
Loans and receivables due from banks and other financial institutions	-	-	16,844,000	-	16,844,000
Loans and receivables due from customers	70,750,545	91,992,020	-	-	162,742,565
Investment securities	-	-	128,024,439	-	128,024,439
Other	-	-	5,480,888	15,241,242	20,722,130
	70,750,545	**91,992,020**	**213,873,042**	**15,241,242**	**391,856,849**
Liabilities per segments					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	17,159,317	-	17,159,317
Deposits and other liabilities due to customers	221,167,282	55,719,125	23,119,496	-	300,005,903
Subordinated liabilities	-	-	6,077,962	-	6,077,962
Other	-	-	-	7,156,933	7,156,933
	221,167,282	**55,719,125**	**46,356,775**	**7,156,933**	**330,400,115**

Notes: Loans due from the micro-sized legal entities are presented within retail banking segment.
Indirect operating expenses refer to the expenses that are not under control of operating segments.

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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
Income and expenses					
Interest income	7,051,686	7,635,016	6,537,677	-	21,224,379
Interest expenses	(4,367,510)	(1,352,762)	(2,205,521)	-	(7,925,793)
Net interest income	2,684,176	6,282,254	4,332,156		13,298,586
Net inter-segment income/(expenses)	2,303,754	(3,428,395)	1,124,641	-	-
Net fee and commission income	2,853,446	1,317,597	546,714	-	4,717,757
Profit before impairment allowances	**7,841,376**	**4,171,456**	**6,003,511**	**-**	**18,016,343**
Net impairment allowance (charge)/reversal	(382,120)	(2,341,030)	(2,239)		(2,725,389)
Profit before operating expenses	**7,459,256**	**1,830,426**	**6,001,272**	**-**	**15,290,954**
Direct operating expenses	(5,478,080)	(1,588,907)	(331,978)	-	(7,398,965)
Foreign exchange gains/(losses), net	-	-	(205,943)	-	(205,943)
Net other income/(expenses)	60,140	298,208	60,140		418,488
Profit before indirect operating expenses	**2,041,316**	**539,727**	**5,523,491**	**-**	**8,104,534**
Indirect operating expenses	(1,868,265)	(1,144,048)	(334,632)	-	(3,346,945)
Profit before taxes	**173,051**	**(604,321)**	**5,188,859**	-	**4,757,589**
Assets per segments					
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**	**406,261,525**
Liabilities per segments					
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**

Notes: Loans due from the micro-sized legal entities are presented within retail banking segment.
Indirect operating expenses refer to the expenses that are not under control of operating segments.

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

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 that are not recorded at fair value in the financial statements:

(i) Assets and liabilities whose carrying values approximate their fair values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (within a year) it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, saving accounts without a specified maturity and all variable interest rate financial instruments.

(ii) Fixed interest 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, 2015	2014
Loans and receivables due from banks	162,882	591,752
Loans and receivables due from customers	12,769,151	14,686,703
Loans and receivables due from the central bank	667,426	587,127
Investment securities	5,256,850	5,358,797
Total interest income	18,856,309	21,224,379
Deposits from and liabilities due to banks	186,963	688,661
Deposits from and liabilities due to customers	4,060,560	6,133,656
Borrowings received	1,078,977	1,103,476
Total interest expenses	5,326,500	7,925,793
Net interest income	13,529,809	13,298,586

Total interest income and expenses calculated using the effective interest rate method and 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 AND EXPENSES

Net fee and commission income and expenses include:

	Year Ended December 31, 2015	2014
Fee and commission income in RSD		
Payment transfer operations	2,880,097	2,835,577
Fees on issued loans and guarantees - retail customers	21,407	20,011
Fees on issued loans and guarantees - corporate customers	205,396	259,847
Fees on purchase and sale of foreign currencies	617,338	443,916
Brokerage and custody fees	78,838	60,375
Fees arising from card operations	1,348,534	1,160,379
Credit Bureau processing fees	88,021	84,265
Other banking services	599,104	645,203
	5,838,735	5,509,573
Fee and commission income in foreign currencies		
Payment transfer operations	96,130	86,079
Fees on issued loans and guarantees - retail customers	2,458	2,383
Brokerage and custody fees	7,353	2,195
Fees arising from card operations	59,233	72,258
Other banking services	197	4,552
	165,371	167,467
	6,004,106	5,677,040
Fee and commission expenses in RSD		
Payment transfer operations	162,025	206,287
Fees arising on purchase and sale of foreign currencies	66,890	19,437
Fees arising from card operations	334,689	273,557
Credit Bureau processing fees	73,013	64,802
Other banking services	132,337	128,585
	768,954	692,668
Fee and commission expenses in foreign currencies		
Payment transfer operations	50,749	39,533
Fees arising from card operations	255,592	183,028
Other banking services	28,864	44,054
	335,205	266,615
	1,104,159	959,283
Net fee and commission income	4,899,947	4,717,757

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

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	Year Ended December 31, 2015	2014
Gains on the fair value adjustment of securities – bonds	2,055	3,669
Gains on the fair value adjustment of securities – investment units	9,640	1,040
Gains on the fair value adjustment of securities – shares	952	426
Gains on the sales of securities at fair value through profit and loss	4,661	2,469
	17,308	7,604
Losses on the fair value adjustment of securities – shares	(52)	(508)
Losses on the fair value adjustment of securities – bonds	(11,217)	(532)
Losses on the fair value adjustment of securities – investment units	-	(49)
Losses on the sales of securities and other financial assets held for trading	(2,853)	(439)
	(14,122)	(1,528)
Net gains on the financial assets held for trading	**3,186**	**6,076**

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

Net (losses)/gains on the financial assets available for sale include:

	Year Ended December 31, 2015	2014
Gains on the sale of securities available for sale	44,155	52,028
Losses on the sale of securities available for sale	(52,819)	(746)
Net (losses)/gains on the financial assets available for sale	**(8,664)**	**51,282**

Gains on the sale of securities available for sale of RSD 44,155 thousand relate to the gains from the sale of old foreign currency savings bonds (2015 series) in the amount of RSD 27,994 thousand, the Republic of Serbia Treasury bills in the amount of RSD 3,997 thousand and foreign currency bonds issued by the Republic of Serbia in the amount of RSD 12,164 thousand.

Losses on the sale of securities available for sale of RSD 52,819 thousand relate to the losses from the sale of bonds issued by the Republic of Serbia in the amount of RSD 52,443 thousand (foreign currency and RSD bonds in the respective amounts of RSD 13,757 thousand and RSD 38,686 thousand) and bonds issued by banks in the amount of RSD 376 thousand.

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

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2015	2014
Positive currency clause effects	3,911,977	4,993,387
Positive currency clause effects – value adjustment of securities	40,516	14,022
Foreign exchange gains – value adjustment of liabilities	184,665	27,065
Positive currency clause effects – retail customers	2,935,203	2,607,787
Foreign exchange gains	1,864,243	6,504,190
	8,936,604	14,146,451
Negative currency clause effects	(3,403,198)	(980,887)
Negative currency clause effects – value adjustment of securities	(37,868)	(3,392)
Negative currency clause effects – value adjustment of liabilities	(228,029)	(207,365)
Negative currency clause effects – retail customers	(2,041,942)	(343,072)
Foreign exchange losses	(3,239,006)	(12,817,678)
	(8,950,043)	(14,352,394)
Net foreign exchange losses and negative currency clause effects	(13,439)	(205,943)

13. OTHER OPERATING INCOME

Other operating income relates to:

	Year Ended December 31, 2015	2014
Other income from operations	165,385	179,395
Other income	295,034	389,796
Total	**460,419**	**569,191**

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 respective amounts of RSD 223,163 thousand (2014: RSD 177,926 thousand) and RSD 12,398 thousand (2014: and RSD41,570 thousand).

In 2015 the Bank received dividend from its equity investments and shares held for trading in the amount of RSD 4,927 thousand (2014: RSD 120,689 thousand).

Within the line item of other income from operations in 2015, the most significant items relate to the following:

- Rental income of RSD 98,530 thousand (of which RSD 79,527 thousand relates to the lease of business premises);
- Gains on the sales of property and equipment used in performance of the business activity in the amount of RSD 22,055 thousand;
- Gains on the sales of equipment not previously used in performance of the business activity in the amount of RSD 5,467 thousand; and
- Gains on the sales of assets acquired in lieu of debt collection in the amount of RSD 6,232 thousand.

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, 2015	2014
Impairment allowance of loans and receivables	22,921,869	10,107,502
Provisions for off-balance sheet items	599,089	540,305
Reversal of impairment allowance of loans and receivables	(9,884,868)	(7,476,813)
Reversal of provisions for off-balance sheet items	(627,390)	(445,528)
Collection of receivables previously written-off	(174)	(77)
Total	**13,008,526**	**2,725,389**

Within the line item of losses on the impairment allowance of loans and receivables the Bank recorded impairment of tangible assets acquired in lieu of debt collection in the amount of RSD 488,953 thousand (Note 32V) based on the appraisal performed by a certified appraiser.

Until the end of January 2016 the Bank did not have material collections of loans and receivables previously provided for 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 at January 1, 2015	368,589	23,084,977	120,221	1,306,301	568,424	25,448,512
Charge for the year	1	22,181,632	8,640	731,596	599,089	23,520,958
Decrease in impairment allowance	(1)	(9,646,823)	(29,698)	(208,346)	(627,390)	(10,512,258)
Foreign exchange effects	31,171	126,203	6	2,745	-	160,125
Write-off s	-	(3,383)	(1,130)	(284)	-	(4,797)
Other movements	-	541,401	-	(23,487)	-	517,914
Balance at December 31, 2015	**399,760**	**36,284,007**	**98,039**	**1,808,525**	**540,123**	**39,130,454**

The Bank increased impairment allowances and provisions in 2015 by the total amount of RSD 13,008,526 thousand, net against profit and loss.

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15. STAFF COSTS

Staff costs include:

	Year Ended December 31, 2015	2014
Net salaries	2,491,119	2,519,942
Net benefits	404,518	429,025
Payroll taxes	364,452	373,034
Payroll contributions	761,840	783,688
Considerations paid to seasonal and temporary staff	11,201	40,725
Provisions for retirement benefits – net (Note 36)	33,856	(2,748)
Other staff costs	54,604	67,823
Total	**4,121,590**	**4,211,489**

16. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2015	2014
Amortization charge – intangible assets (Note 26.2)	248,615	283,451
Depreciation charge – property and equipment (Note 27.2)	495,442	524,597
Depreciation charge – investment property (Note 28.1)	53,344	36,584
Total	**797,401**	**844,632**

17. OTHER EXPENSES

Other expenses include:

	Year Ended December 31, 2015	2014
Cost of materials	434,084	398,717
Cost of production services	2,179,222	2,176,374
Non-material costs (without taxes and contributions)	2,442,010	2,224,978
Taxes payable	134,656	139,132
Contributions payable	693,494	713,802
Other costs	30,910	34,037
Other expenses	964,020	210,113
Losses on the valuation of investment property and non-current assets held for sale (Notes 28 and 31)	43,607	697
Provisions for litigations (Note 36)	435,896	-
Total	**7,357,899**	**5,897,850**

a) Other expenses

Other expenses totaling RSD 964,020 thousand include expenses for the lost lawsuit against the customer Intereksport a.d., Beograd (in bankruptcy) with regard to the arrangement with the National Bank of Cuba amounting to RSD 560,837 thousand and CAD 2,995 thousand with domestic interest from January 6, 1990 to December 24, 2012, and, from December 25, 2012 up to the payment date, with penalty interest in accordance with the Penalty Interest Act in the total amount of CAD 3,818 thousand.

Outflows per forced collection performed by the National Bank of Serbia on October 19, 2015 in favor of Intereksport a.d., Beograd (in bankruptcy) – bankruptcy estate – was recorded within other expenses as follows:

- Principal of RSD 244,461 thousand;
- Prior years' interest of RSD 311,628 thousand; and
- Court expenses and fees and forced collection performed by the National Bank of Serbia in the amount of RSD 4,748 thousand.

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

17. OTHER EXPENSES (Continued)

a) Other expenses (Continued)

Given the fact that the first-instance court adjudicated in favor of the Bank, the Bank did not expect outflows in this respect and hence made no provisions for this lawsuit.

b) Provisions for Litigations

Provisions for litigations totaling RSD 435,896 thousand (Note 36) pertain to the following:

- Three new legal suits of which the largest amount of RSD 201,617 thousand refers to the provision for the lawsuit against the RS Privatization Agency regarding activation of the performance guarantee dated January 14, 2005 at the request of Vektra M d.o.o., Beograd. The total liability as per court ruling amounted to RSD 461,703 thousand, out of which the basic claim from the court ruling amounted to RSD 196,523 thousand, while the Bank was obligated to calculate and pay the related interest as from 2007 up to the payment date. As in the previous year the Bank made provisions per the guarantee at issue in the amount of RSD 260,086 thousand (100%) within off-balance sheet item provisions, the difference up to the required provision amount of RSD 201,617 thousand (relating to the interest) was recognized as a provision for litigations (Note 36).
- Increase in provisions for legal suits against Intereksport a.d., Beograd (in bankruptcy) and the Republic of Serbia in the total amount of RSD 192,007 thousand resulted from the adjustment of the liability to its present value due to the increase in the RSD to USD exchange rate by 11.9% (mostly in Q1 and Q4 2015) and calculation of penalty interest for the previous year at the legally prescribed rate.

18. INCOME TAXES

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

	Year Ended December 31, 2015	2014
Deferred income tax benefits	114,554	47,547
Deferred income tax expenses	(27)	(19,559)
Total	**114,527**	**27,988**

In 2015 and 2014 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:

	2015	2015	2014	2014
(Loss) / profit before taxes		**(6,055,570)**		**4,757,589**
Tax calculated at the local income tax rate	-15%	(962,124)	15%	713,638
Expenses not recognized for tax purposes	21,92%	1,406,244	1,18%	56,261
Tax effects of the net capital losses /gains	-0.1%	(5,773)	-0,01%	(412)
Tax effects of income reconciliation	0%	(3,749)	-0,30%	(14,441)
Tax credit received and utilized in the current year	0.1%	5,773	0%	-
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-12.79%	(774,755)	-17,72%	(843,246)
Tax effect adjustments per deferred taxes	-1.89%	(114,527)	-0,59%	(27,988)
Tax effects stated within the income statement		**(114,527)**	-	**(27,988)**

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

18. INCOME TAXES (Continued)

18.2 Reconciliation of the effective tax rate (Continued)

Expenses not recognized for tax purposes totaling RSD 1,406,244 thousand, mostly, in the amount of RSD 1,224,171 thousand, relates to the effects of increased impairment allowance of the Bank's receivables above the amount prescribed by NBS regulations (15% of RSD 8,161,137 thousand, which is the impairment allowance amount in excess of the prescribed amount).

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

	Year Ended December 31, 2015	2014
Balance as at January 1	(150,407)	(10,156)
Occurrence and reversal of temporary differences	22,862	(140,251)
Balance as at December 31	**(127,545)**	**(150,407)**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

	December 31, 2015	December 31, 2014
In RSD		
Cash on hand	2,907,703	2,466,110
Gyro account	20,884,697	25,191,123
Deposited surplus liquid assets	5,000,000	-
Other cash funds	100	100
	28,792,500	27,657,333
In foreign currencies		
Cash on hand	3,972,283	2,492,030
Foreign currency obligatory reserves	30,752,857	36,737,503
Other cash funds	6,075	1,660,523
	34,731,215	40,890,056
Total	**63,523,715**	**68,547,389**

Adjustments to cash and cash funds held with the central bank for the purpose of preparing the statement of cash flows

Foreign currency accounts held with foreign banks (Note 23.1)	8,456,806	13,350,291
Foreign currency obligatory reserves	(30,752,857)	(36,737,503)
Deposited surplus liquid assets	(5,000,000)	-
	(27,296,051)	(23,387,212)
Cash and cash equivalents reported in the statement of cash flows	**36,227,664**	**45,160,177**

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 NBS. In accordance with the said Decision, the obligatory dinar reserves are calculated based on the average daily balances 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, 38% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 30% of RSD equivalent of obligatory reserves in EUR to deposits over 730 days (Official Gazette of RS, no. 135/2014).

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

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

The National Bank of Serbia paid interest on these RSD reserves at the rate of 2.5% p.a. up to October 17, 2015, at the rate of 2.0% p.a. for the period from October 17, 2015 to November 17, 2015 and at the rate of 1.75% p.a. as from November 18, 2015 (2014: 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.

Pursuant to the Decision on Amendments to the Decision on Obligatory Reserves Held with NBS dated September 10, 2015, the rates applied in calculation of the obligatory foreign currency reserve were decreased as follows:

- for foreign currency deposits placed up to 730 days the rate of 22% is applied (previously 26%);
- for foreign currency deposits placed for over 730 days the rate of 15% is applied (previously 19%).

Foreign currency obligatory reserve does not accrue interest. During 2015, in accordance with the Decision on Obligatory Reserves Held with NBS, the Bank allocated a portion of its foreign currency reserve in RSD equivalent to its gyro account.

Other foreign currency cash funds of RSD 6,075 thousand (2014: RSD 1,660,523 thousand) entirely relate to the clearing account held with the s Central Securities Registry, Depository and Clearing House for trade in securities.

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

Financial assets held for trading comprise:

	December 31, 2015	December 31, 2014
Securities held for trading (in RSD)	798,788	51,458
Securities held for trading (in foreign currencies)	52,268	70,176
Total (Note 4.1.4)	**851,056**	**121,634**

Breakdown of financial assets held for trading is provided below:

	December 31, 2015	December 31, 2014
Republic of Serbia bonds	183,121	70,176
Corporate shares	4,520	3,787
Bank shares	275	180
Investment units of OIF monetary fund	663,140	47,491
Total	**851,056**	**121,634**

Investment units totaling RSD 663,140 thousand as of December 31, 2015 relate to the investment units of two investment funds: Raiffeisen Invest a.d., Beograd and KomBank Invest a.d., Beograd, in the amounts of RSD 486,705 thousand and RSD 176,435 thousand, respectively.

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21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

	December 31, 2015	December 31, 2014
Securities available for sale (in RSD)	42,150,380	35,179,709
Securities available for sale (in foreign currencies)	85,023,373	60,302,035
Total (Note 4.1.4)	127,173,753	95,481,744
Impairment allowance	(370)	(494)
Total	**127,173,383**	**95,481,249**

Securities available for sale (in RSD) as of December 31, 2015 relate to the Republic of Serbia Treasury bills in the amount of RSD 11,669,591 thousand (2014: RSD 10,590,077 thousand), Republic of Serbia bonds in the amount of RSD 29,948,565 thousand (2014: RSD 22,992,331 thousand), bonds of the City of Pančevo and Municipalities Stara Pazova and Šabac in the amount of RSD 452,692 thousand (2014: RSD 443,283 thousand), bonds of the company Tigar a.d., Pirot in the amount of RSD 79,442 thousand (2014: RSD 69,769 thousand), and shares of AIK banka a.d., Beograd in the amount of RSD 90 thousand (2014: RSD 90 thousand).

Out of the total amount of impairment allowance, RSD 366 thousand relates to the bonds of the company Tigar a.d., Pirot (2014: RSD 490 thousand).

Securities available for sale (in foreign currencies) as of December 31, 2015 relate to the Republic of Serbia Treasury bills in the amount of RSD 11,897,890 thousand (2014: RSD 10,257,953 thousand), long-term Government of the Republic of Serbia bonds in the amount of RSD 70,181,281 thousand (2014: RSD 46,972,575 thousand), Republic of Serbia old savings bonds in the amount of RSD 934,678 thousand (2014: RSD 1,346,991 thousand), foreign bank bonds – Raiffeisen Bank International the amount of RSD 1,665,663 thousand (2014: RSD 1,397,811 thousand), and bonds of the UK Government in the amount of RSD 343,861 thousand (2014: RSD 326,705 thousand).

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

Impairment allowance of securities available for sale

	December 31, 2015	December 31, 2014
Individual impairment allowance		
Balance at January 1	494	2,512
Current year impairment allowance:		
Charge for the year (Note 14)	618	1,962
Effects of the changes in foreign exchange rates (Note 14)	6	94
Reversal (Note 14)	(748)	(4,074)
Total individual impairment allowance	**370**	**494**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

	December 31, 2015	December 31, 2014
Securities held to maturity (discounted bills of exchange) (Note 4.1.4)	97,669	171,169
Impairment allowance	(97,669)	(119,727)
Total	**-**	**51,442**

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

22. FINANCIAL ASSETS HELD TO MATURITY (Continued)

Impairment allowance of securities held to maturity

	December 31, 2015	December 31, 2014
Individual impairment allowance		
Balance at January 1	18,213	42,673
Current year impairment allowance:		
Charge for the year (Note 14)	672	7,466
Reclassified from individual to group impairment allowance	-	(24,411)
Reversal (Note 14)	(21,600)	(7,547)
Other	-	32
Total individual impairment allowance	(2,715)	18,213
Group impairment allowance		
Balance at January 1	101,514	-
Current year impairment allowance:		
Charge for the year (Note 14)	7,350	-
Reclassified from individual to group impairment allowance	-	24,411
Reversal (Note 14)	(7,350)	(1,094)
Write-off	(1,130)	-
Other	-	78,197
Total group impairment allowance	100,384	101,514
Total group and individual impairment allowance	**97,669**	**119,727**

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

23.1. Loans and receivables due from banks include:

	December 31, 2015	December 31, 2014
RSD loans and receivables		
Per repo transactions	1,200,000	7,000,000
Loans for working capital	100,000	1,200,000
Overnight loans	500,000	2,200,000
Other loans and receivables	8,686	27,567
Prepayments	14,885	24,595
Impairment allowance	(105,463)	(105,463)
	1,718,108	10,346,699
Foreign currency loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	8,456,806	13,350,291
Overnight loans	1,279,338	8,094,628
Other loans and receivables due from foreign banks	600,328	575,355
Foreign currency deposits placed with other banks	3,494,424	1,117,200
Prepayments	2,611	3,513
Other loans and receivables	15,265	15,924
Loans to foreign banks (subsidiaries)	573,380	604,792
Secured foreign currency sureties	998,037	892,329
Impairment allowance	(294,297)	(263,126)
	15,125,892	24,390,906
	16,844,000	34,737,605

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

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

As of December 31, 2015 securities acquired through reverse repo transactions with the National Bank of Serbia amounting to RSD 1,200,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rates from 2.51% to 6.15%.

Short-term RSD deposits of other banks were placed with the Bank for a period of a year at interest rates ranging from 2.52 % 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 0.5% per annum for deposits and from 0.01% to 0.2% and 0.02% for USD and CHF deposits, respectively.

Interest rates applied to the loans extended to subsidiary banks ranged between 2.87% and 3.75% plus 3M EURIBOR annually for long-term revolving loans. Other long-term loans were approved at interest rates of 2.75% to 3.75% plus 6M EURIBOR annually.

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	**2015**	**2014**
Balance at January 1	368,589	325,374
Current year impairment allowance:		
Charge for the year (Note 14)	1	2,468
Effects of the changes in foreign exchange rates (Note 14)	31,171	43,199
Reversal (Note 14)	(1)	(2,452)
Total group impairment allowance	**399,760**	**368,589**

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24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1. Loans and receivables due from customers:

	2015			2014		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	587,564	(187,201)	400,363	655,510	(188,902)	466,608
Working capital loans	42,334,657	(10,195,536)	32,139,121	51,932,892	(6,089,887)	45,843,005
Export loans	2,275,456	(1,525,569)	749,887	2,181,694	(887,774)	1,293,920
Investment loans	25,708,395	(3,002,823)	22,705,572	35,389,792	(2,081,382)	33,308,410
Purchased loans and receivables - factoring	217,372	(12,412)	204,960	101,171	(80,424)	20,747
Loans for payment of imported goods and services	5,372,720	(4,365,328)	1,007,392	5,270,391	(1,804,796)	3,465,595
Receivables for discounted bills of exchange, acceptances and payments made for guarantees called on	2,107,567	(1,451,712)	655,855	1,865,582	(1,058,213)	807,369
Other loans and receivables	57,995,185	(12,954,715)	45,040,470	50,663,189	(8,730,494)	41,932,695
Prepayments	575,670	(205)	575,465	445,249	(905)	444,344
Accruals	(222,964)	-	(222,964)	(283,166)	-	(283,166)
	136,951,622	(33,695,501)	103,256,121	148,222,304	(20,922,777)	127,299,527
Retail customers						
Transaction account overdrafts	4,049,323	(644,649)	3,404,674	4,450,820	(638,367)	3,812,453
Housing loans	38,360,446	(839,267)	37,521,179	37,842,597	(517,453)	37,325,144
Cash loans	17,245,192	(911,791)	16,333,401	15,060,740	(854,475)	14,206,265
Consumer loans	285,596	(44,912)	240,684	597,545	(49,927)	547,618
Other loans and receivables	2,344,367	(144,053)	2,200,314	2,447,906	(97,021)	2,350,885
Prepayments	203,027	(3,834)	199,193	220,458	(4,957)	215,501
Accruals	(413,001)	-	(413,001)	(380,358)	-	(380,358)
	62,074,950	(2,588,506)	59,486,444	60,239,708	(2,162,200)	58,077,508
Balance at December 31	**199,026,572**	**(36,284,007)**	**162,742,565**	**208,462,012**	**(23,084,977)**	**185,377,035**

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, 2015	December 31, 2014
Individual impairment allowance		
Balance as at January 1	10,989,768	6,406,946
Current year impairment allowance:		
Charge for the year (Note 14)	9,834,554	5,715,603
Reclassified from group to individual impairment allowance	(2,843,037)	3,021,278
Effects of the changes in foreign exchange rates (Note 14)	29,845	517,703
Reversal (Note 14)	(1,752,173)	(5,555,663)
Transfer from off-balance sheet items	-	394,977
Prior years' interest income	-	(171,669)
Other (Note 14)	256,211	660,593
Total individual impairment allowance	**16,515,168**	**10,989,768**
Group impairment allowance		
Balance as at January 1	12,095,209	12,423,635
Current year impairment allowance:		
Charge for the year (Note 14)	12,347,078	4,119,840
Reclassified from group to individual impairment allowance	2,843,037	(3,021,278)
Effects of the changes in foreign exchange rates (Note 14)	96,358	106,874
Reversal	(7,894,650)	(1,158,990)
Write-of (Note 14)	(3,383)	(268,885)
Other (Note 14)	285,190	(105,987)
Total group impairment allowance	**19,768,839**	**12,095,209**
Total group and individual impairment allowance	**36,284,007**	**23,084,977**

24.3. Short-term RSD and foreign currency loans were approved for periods from 30 days to one year, at interest rates ranging between 0.39% and 1.42% per month.

Long-term RSD and foreign currency loans were approved for periods from 1 to the maximum of 30 years, at annual interest rates ranging between 3.2% plus 6M EURIBOR and fixed annual rate of 18.5%.

Risks and Uncertainties

The Bank's management recorded provisions for potential credit losses based on all known or anticipated credit risks as of the financial statements preparation dates. The Bank's loan portfolio receivables were classified based on the most recent relevant financial information available as well as based on the expected effects of the restructuring processes. If these effects fail to provide possibilities for settlement of 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 case the debt recovery actions undertaken by the Bank's management prove unsuccessful, additional amounts of allowances for impairment and provisions for losses based on the assessed irrecoverability would be required in the forthcoming reporting periods.

25. INVESTMENTS IN SUBSIDIARIES

	December 31, 2015	December 31, 2014
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
Total	**5,480,888**	**5,480,888**

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

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

	December 31, 2015	December 31, 2014
Intangible assets	209,807	388,775
Intangible assets in progress	7,023	16,999
Total	**216,830**	**405,774**

26.2 Movements on the account of intangible assets in 2015 and 2014 are presented below:

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
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
Balance at January 1, 2015	1,542,943	16,999	1,559,942
Additions	-	59,670	59,670
Transfers	69,646	(69,646)	-
Balance at December 31, 2015	1,612,589	7,023	1,619,612
Accumulated Amortization			
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
Balance at January 1, 2015	1,154,167	-	1,154,167
Charge for the year (Note 16)	248,615	-	248,615
Balance at December 31, 2015	1,402,782	-	1,402,782
Net Book Value			
- Balance at January 1, 2014	**527,025**	**10,420**	**537,445**
- Balance at December 31, 2014	**388,775**	**16,999**	**405,774**
- Balance at December 31, 2015	**209,807**	**7,023**	**216,830**

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

	December 31, 2015	December 31, 2014
Property	5,393,184	5,466,855
Equipment	702,923	838,138
Investments in progress	43,465	24,084
Total	**6,139,572**	**6,329,077**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015
All amounts expressed in thousands of RSD, unless otherwise stated.

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

27.2 Movements on the account of property and equipment in 2015 and 2014 are presented below:

	Property	Equipment	Investment in Progress	Total
Cost				
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
Balance at January 1, 2015	7,012,069	3,195,750	24,084	10,231,903
Additions	-	-	321,347	321,347
Transfers from assets acquired in lieu of debt collection	-	-	259,752	259,752
Transfers from investment in progress (Note 28.1)	109,451	192,515	(561,718)	(259,752)
Disposal and retirement	(19,368)	(95,771)	-	(115,139)
Sales	(12,278)	(24,874)	-	(37,152)
Other	(306)	-	-	(306)
Balance at December 31, 2015	7,089,568	3,267,620	43,465	10,400,653
Accumulated Depreciation				
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
Balance at January 1, 2015	1,545,214	2,357,612	-	3,902,826
Charge for the year (Note 16)	169,658	325,784	-	495,442
Disposal and retirement	(16,213)	(94,590)	-	(110,803)
Sales	(2,204)	(24,109)	-	(26,313)
Other	(71)	-	-	(71)
Balance at December 31, 2015	1,696,384	2,564,697	-	4,261,081
Net Book Value				
- Balance at January 1, 2014	**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**
- Balance at December 31, 2015	**5,393,184**	**702,923**	**43,465**	**6,139,572**

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, 2015, the Bank did not have title deeds as proof of ownership for 39 buildings stated at the net book value of RSD 529,568 thousand (these buildings include assets acquired in lieu of debt collection). 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 1,127 thousand were retired and derecognized from the Bank's records.

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

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2015 and 2014 are presented below:

	Total
Cost	
Balance at January 1, 2014	2,000,561
Transfer from investments in progress (Note 27.2)	807,486
Transfer from property and equipment (Note 27.2)	7,001
Appraisal (revaluation) – decrease	(4,216)
Balance at December 31, 2014	2,810,832
Balance at January 1, 2015	2,810,832
Transfer from investments in progress (Note 27.2)	259,752
Sales	(2,783)
Appraisal (revaluation) – decrease (Note 17)	(42,798)
Balance at December 31, 2015	3,025,003
Accumulated Depreciation	
Balance at January 1, 2014	192,007
Charge for the year (Note 16)	36,584
Transfer from property and equipment (Note 27.2)	1,394
Appraisal (revaluation) – decrease	(297)
Balance at December 31, 2014	229,688
Balance at January 1, 2015	229,688
Charge for the year (Note 16)	53,344
Sales	(1,178)
Appraisal (revaluation) – decrease (Note 17)	(877)
Balance at December 31, 2015	280,977
Net Book Value	
- Balance at January 1, 2014	**1,808,554**
- Balance at December 31, 2014	**2,581,144**
- Balance at December 31, 2015	**2,744,026**

As of December 31, 2015 the Bank stated investment property as totaling RSD 2,744,026 thousand, comprised of leased out buildings/premises.

Pursuant to executed long-term lease agreements in 2015 the Bank transferred to investment property properties from investment in progress (at no. 29, Resavska St., Belgrade, at no.1/b, Vardarska St., Novi Sad, at no. 88, Bulevar oslobođenja St., Novi Sad - 3 outlets, and premises at n.n., Bulevar 12. februar St., Niš and Gradina) totaling RSD 259,752 thousand.

In 2015, based on the appraisal performed by an external certified appraiser, the Bank impaired investment property in the amount of RSD 41,921 thousand.

In 2015, the Bank sold the commercial building in Gradina and thus decreased the net book value of investment property by RSD 1,605 thousand. The total selling price of the property amounted to RSD 6,586 thousand.

The appraised value of investment property is provided below:

Property	Area in m_2	Carrying amount prior to appraisal RSD '000	Appraised amount EUR '000	Appraised amount RSD '000	Difference RSD '000
Belgrade, Beogradska 39	460	141,886	944	114,815	(27,071)
Belgrade, Resavska 29	264	54,069	373	45,306	(8,763)
Niš, Bulevar 12.februar bb	816	23,329	142	17,242	(6,087)
Total		**219,284**		**177,363**	**(41,921)**

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

28. INVESTMENT PROPERTY (Continued)

28.2 As of December 31, 2015 the net profit realized form investment property amounted to RSD 14,101 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Profit
Beograd, Makedonska 29	5,553	(31,434)	14,906	(16,528)
Niš, , Vrtište new D building	1,816	(3,908)	6,581	2,673
Niš, TPC Kalča	85	(806)	4,647	3,841
Beograd, Omladinskih brigada 19	15,218	(15,695)	17,346	1,651
Šabac, Majur, Obilazni put bb	1,263	(1,036)	1,737	701
Lovćenac, Maršala Tita bb,	46,890	(3,782)	8,683	4,901
Negotin, Save Dragovića 20-22	658	(927)	724	(203)
Niš, Bulevar 12. februar bb	816	(237)	1,390	1,153
Beograd, Radnička 22	7,190	(16,488)	19,041	2,553
Beograd, Beogradska 39	460	(3,718)	8,989	5,271
Beograd, Resavska 29	264	(1,340)	6,431	5,091
Novi Sad, Vardarska 1/B,	291	(1,659)	2,530	871
Novi Sad, Bulevar Oslobođenja 88, 3 stores	57	(2,849)	4,975	2,126
		(83,879)	97,980	14,101

The Bank did not recognize payments for the lease of the property at no. 29, Makenodska St. in Belgrade of RSD 59,051 thousand as rental income given the fact that the original lease agreement had expired and negotiations on another lease agreement were in progress (these payments were recorded as liabilities in settlement).

29. CURRENT TAX ASSETS

	December 31, 2015	December 31, 2014
Current tax assets (paid monthly advance income tax payments for 2015 as prescribed by the Corporate Income Tax Law)	37,017	73,835

During 2015 the Bank paid no income taxes since for the year 2014 it had not stated tax liabilities for income taxes due to tax exemption of the interest income from debt securities issued by the Republic of Serbia and the National Bank of Serbia. The prior years' prepayment the Bank used to offset value added tax liability payment.

The Bank will use the remaining current tax assets in 2016 to offset payment of other taxes given that the Bank will be exempt from advance income tax payments in 2016.

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

30. DEFERRED TAX ASSETS AND LIABILITIES

30.1 Deferred tax assets and liabilities relate to:

	2015			2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of fixed assets for tax and financial reporting purposes	-	(30,335)	(30,335)	-	(64,287)	(64,287)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	40,225	(310,042)	(269,817)	40,611	(213,650)	(173,039)
Long-term provisions for retirement benefits	36,180	-	36,180	26,750	-	26,750
Impairment of assets	136,427	-	136,427	60,142	-	60,142
Assets based on calculation of public duties	-	-	-	27	-	27
Total	**212,832**	**(340,377)**	**(127,545)**	**127,530**	**(277,937)**	**(150,407)**

Tax credits not recorded in the Bank's books for which deferred tax assets were not created, yet which can be utilized to offset income taxes payable in the ensuing periods totaled RSD 3,005,377 thousand and mostly pertained to the tax loss incurred in 2015 (RSD 2,970,516 thousand).

30.2 Movements on temporary differences during 2015 and 2014 are presented as follows:

2015	Balance at January 1	Recognized in Profit or Loss	Recognized in Equity	Balance at December 31
Property and equipment	(64,287)	34,022	(70)	(30,335)
Securities	(173,039)	-	(96,778)	(269,817)
Long-term provisions for retirement benefits	26,750	4,247	5,183	36,180
Impairment of assets	60,142	76,285	-	136,427
Assets based on calculating public duties	27	(27)	-	-
Total	**(150,407)**	**114,527**	**(91,665)**	**(127,545)**

2014	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)**

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

	December 31, 2015	December 31, 2014
Non-current assets held for sale and assets from discontinued operations	63,314	84,227
Total	**63,314**	**84,227**

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

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

Non-current assets held for sale:

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	598
Požarevac, M.Pijade 2, business premises	790.82	31,012
Požarevac, M.Pijade 2, business premises	880.86	25,660
Belgrade, Toše Jovanovića 7, business premises	24.05	2,156
Vrbas, M. Tita 49, business premises	145.56	3,888
Total		**63,314**

During 2015 the Bank sold two properties (two sets of business premises in Kruševac) and thus decreased the net book value of non-current assets held for sale by RSD 29,301 thousand. The total selling price of the properties amounted to RSD 46,269 thousand.

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

In 2015, based on the appraisal performed by an external certified appraiser, the Bank decreased the value of non-current assets held for sale in the amount of RSD 1,686 thousand (Note 17).

32. OTHER ASSETS

Other assets comprise:

	December 31, 2015	December 31, 2014
In RSD		
Fee receivables per other assets	131,512	126,644
Inventories	179,683	144,119
Assets acquired in lieu of debt collection	2,957,046	3,225,648
Prepaid expenses	145,919	140,804
Equity investments	1,375,601	1,195,544
Other RSD receivables	2,565,712	1,729,226
	7,355,473	6,561,985
Impairment allowance of:		
Fee receivables per other assets	(68,028)	(61,494)
Assets acquired in lieu of debt collection	(653,745)	(188,336)
Equity investments	(448,581)	(448,581)
Other RSD receivables	(588,049)	(537,374)
	(1,758,403)	(1,235,785)
In foreign currencies		
Other receivables from operations	315,279	1,024,993
Receivables in settlement	289,723	809,686
Other foreign currency receivables	20,675	3,219
	625,677	1,837,898
Impairment allowance of		
Other receivables from operations	(102,261)	(94,922)
Receivables in settlement	(80,003)	(78,951)
	(182,264)	(173,873)
Total	**6,040,483**	**6,990,225**

Based on the annual inventory count, the Bank expensed written off inventories of materials totaling RSD 961 thousand.

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

32. OTHER ASSETS (Continued)

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

	December 31, 2015	December 31, 2014
Balance as at January 1	1,306,301	1,764,028
Current year impairment allowance:		
Charge for the year (Note 14)	731,596	260,163
Effects of the changes in foreign exchange rates (Note 14)	2,745	9,486
Reversal (Note 14)	(208,346)	(746,993)
Write-off	(284)	(1,530)
Other	(23,487)	21,147
	1,808,525	1,306,301
Impairment allowance of tools and fixtures (not subject to credit risk)	132,142	103,357
Balance as at December 31	**1,940,667**	**1,409,658**

a) Equity Investments

Equity investments in the following entities were recognized within other assets:

	2015	2014
Equity investments in banks and other financial organizations	143,467	143,383
Equity investments in companies and other legal entities	455,922	460,913
Equity investments in non-resident entities abroad	776,212	591,248
	1,375,601	1,195,544
Impairment allowance of:		
Equity investments in banks and other financial organizations	(26,683)	(26,683)
Equity investments in companies and other legal entities	(421,898)	(421,898)
	(448,581)	(448,581)

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moscow in the amount of RSD 78,386 thousand, AIK banka a.d., Beograd in the amount of RSD 60,903 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,294 thousand, Union banka d.d., Sarajevo in the amount of RSD 1,875 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 50,580 thousand and Politika a.d., Beograd in the amount of RSD 34,353 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 645,590 thousand and MASTER Card in the amount of RSD 130,622 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., Beograd - RSD 19,287 thousand.

b) Other Receivables

Other RSD receivables mostly refer to other receivables from operations totaling RSD 257,492 thousand, advances paid for working capital assets of RSD 99,278 thousand, rental receivables of RSD 373,657 thousand and interest receivables per other assets of RSD 266,295 thousand.

Within other foreign currency receivables the mount of RSD 185,100 thousand refers to the receivables from foreign exchange spot transactions.

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

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection

Assets acquired in lieu of debt collection totaling RSD 2,957,046 thousand gross, less recorded impairment allowance of RSD 653,745 thousand, i.e., with the net book value of RSD 2,303,301 thousand relate to:

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

Property	Area in m^2	Value	Acquisition Date
I.C.P Kruševac, commercial building	12,836	48,683	08/06/2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,905	24/07/2012
Majur, Tabanovačka, category 4 arable field	1,445 ha	1,656	10/08/2012
Mladenovac, category 3 arable field	16,633	271	25/06/2012
Obrenovac, Mislođin, arable field	10,017	1,068	11/07/2012
Gnjilica, category 7 arable field	2,638	114	15/04/2008
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	110,921	12/01/2009
Residential building, Čačak, at Ratka Mitrovića 6	195	2,433	12/05/2009
Novi Pazar, Kej skopskih žrtava 44, store	82.95	3,019	27/09/2006
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,368	23/12/2009
Tutin, Buče category 4 forest	8,292	336	12/10/2010
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	325	27/09/2012
Budva, category 4 forest	974	4,075	27/05/2011
Prijevor, category 4 forest	1,995	4,795	27/05/2011
Residential building Galathea	925	252,316	21/11/2011
Vranje, field, category 2 vineyard	2,339	1,841	29/11/2013
Prijepolje, Karoševina, saw mill	450	1,097	08/11/2013
Ćuprija, Alekse Šantića 2/24, apartment	72.40	900	15/01/2013
Leskovac, Kralja Petra I, commercial building	335	5,711	04/02/2013
Niš, Ivana Milutinovića 30, business premises	438.39	5,468	23/04/2013
Niš, Triglavska 3/1, apartment	79.80	3,515	04/06/2013
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	26,758	09/07/2013
Mladenovac, field, category 3 forest	1,142	501	18/07/2013
Niš, Bulevar 12. februara, warehouse, ancillary facility	2,062	43,434	31/07/2013
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	24,420	01/10/2013
Total I		**552,930**	

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

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

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

Property	Area in m^2	Value	Acquisition Date
Valjevo, Rađevo selo, warehouse	394	470	11/06/2014
CM Vukovac, CM Milatovac, arable land	132,450	581	16/05/2014
Bor, Nikole Pašića 21, buildings, warehouse, plant	3,823	63,897	08/05/2014
Aleksinac, arable land (fields, vineyards, pastures)	36,787	208	09/07/2014
Subotica, Magnetna 17, production plant, warehouse	2,492	49,542	18/07/2014
Reževići, Montenegro, karst	1,363.20	24,262	22/07/2014
Reževići, Montenegro, category 5 forest	5,638.54	85,821	22/07/2014
Bajina Bašta, Vojvode Mišića 72/1, family house	110,25	2,727	01/08/2014
Mokra Gora, house, meadows pastures, fields	58,400	7,275	31/01/2014
Kopaonik, house and yard	337	8,212	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,222	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,888	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,888	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,777	31/01/2014
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,333	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	31,258	31/01/2014
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	39,285	31/01/2014
Novi Sad, Tihomira Ostojića 4, business premises no. 7	134	9,661	31/01/2015
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	7,825	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	7,632	31/01/2014
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	44,637	31/01/2014
Zrenjanin, Bagljaš, Novosadski put 4, land and building	9,144	37,314	14/08/2014
Beograd, Jurija Gagarina 153a, business premises	30	6,008	27/08/2014
Niš, Ivana Gorana Kovačića 31, residential building	434,58	4,830	17/04/2013
Mladenovac, category 3 and category 4 fields	7,768	257	03/10/2014
Bela Crkva, forest	4,187	85	03/10/2014
Mladenovac, fields, orchards	25,136	546	03/10/2014
Niš, Čajnička bb, residential building	825,74	11,515	14/03/2013
Niš,Sjenička 1, commercial building and warehouse	1,452,73	14,178	14/03/2013
Valjevo, Vojvode Mišića 170, residential building	106.00	1,834	25/09/2014
Beograd, Resavska 29, building	1,680	564,466	03/06/2014
Beograd, Resavska 31, building	3,411	288,314	03/06/2014
Zemun, Cara Dušana 130, factory complex	6,876	206,764	16/06/2014
Valjevo, Radnička 6, apartment	69	2,981	28/05/2015
Niš, Šumadijska 1, business premises	504,60	1,939	04/12/2014
Mionica, Andre Savčić 8, family house	107	1,863	10/09/2015
Prokuplje, Maloplanska 7, land and buildings	490	300	11/06/2012
Sokobanja, land and production plant	5,042	25,347	31/07/2012
Sokobanja, land and guard shack	2,005	728	31/07/2012
Sokobanja, house and land	4,124	9,602	31/07/2012
Sokobanja, arable fields and category 4 orchard	417,908	15,332	31/07/2012
Beograd, B. Pivljanina 83, residential building	278,52	67,320	23/08/2012
Prokuplje, category 3 arable field	12,347	785	28/08/2015
Total II		**1,665,709**	

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

Equipment	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	33,705	08/06/2012
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	30,334	31/07/2012
Paraćin, coffee roasting line	6,455	31/12/2012
Vranić, equipment, production line	9,531	09/07/2013
Total III	**80,025**	

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

32. OTHER ASSETS (Continued)

c) Tangible Assets Acquired in Lieu of Debt Collection (Continued)

IV *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*

Equipment	Value	Acquisition Date
Movables (planting machine)	18	08/12/2015
Total IV	**18**	

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

Equipment	Value	Acquisition Date
Automobile, Peugeot 406, HDI	60	-
Equipment, inventories of waste materials	2,338	-
Movables (installation materials)	1,704	-.
Other	517	
Total V	**4,619**	
TOTAL (net book value) I + II+ III+ IV+V	**2,303,301**	

During 2015 the Bank sold 8 properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 139,261 thousand (3 apartments in Novi Beograd, a house in Novi Pazar and land in Novi Pazar, Niš, Tutin and Reževići). The aggregate selling price of the said properties amounted to RSD 145,294 thousand.

The Bank hired an external certified appraiser to perform revaluation of assets acquired in lieu of debt collection the Bank had acquired prior to the past 12-month period.

The negative appraisal effects were recognized within expenses in the total amount of RSD 488,953 thousand (Note 14), as follows: RSD 473,618 thousand as the negative effect arising from the appraised lower market value of properties and RSD 15,335 thousand as the negative effect in accordance with the Bank's internal bylaw due to the Bank's inability to sell the assets during a period of over a year despite the appraised value exceeding the carrying value of such assets.

The appraised value of properties acquired in lieu of debt collection is provided below:

Property	Area in m^2	Carrying amount prior to appraisal RSD '000	Appraised amount EUR '000	Appraised amount RSD '000	Difference RSD '000
Residential building Galathea	925	319,214	2,100	252,316	(66,898)
Beograd, Resavska 31, building	3,411	697,131	4,641	564,467	(132,664)
Beograd, Resavska 29, building	1,680	349,686	2,370	288,314	(61,372)
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	81,983	323	39,285	(42,698)
Zemun, Cara Dušana 130, factory complex	6,876	243,235	1,700	206,764	(36,471)
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	60,474	257	31,258	(29,216)
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	71,488	367	44,637	(26,851)
Bor, Nikole Pašića 21, buildings, warehouse, plant	3,823	90,913	527	63,897	(27,016)
Kruševac, movables (machinery, furniture, equipment)	-	45,243	-	33,705	(11,538)
Novi Sad, Tihomira Ostojića 4, business premises no. 7	134	17,664	80	9,661	(8,003)
Mokra Gora, house, meadows pastures, fields	58,400	11,901	60	7,275	(4,626)
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	10,702	65	7,825	(2,877)
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	10,495	63	7,632	(2,863)
Kopaonik, house and yard	337	10,955	68	8,212	(2,743)
Other (55 properties)	-	632,556	-	599,439	(33,117)
TOTAL		**2,653,640**		**2,164,687**	**(488,953)**

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

32. OTHER ASSETS (Continued)

The Bank does not hold title deeds for 3 properties and an automobile totaling RSD 10,914 thousand (assets recorded within off-balance sheet items). The Bank's management is undertaking all the necessary actions to sell the acquired assets.

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, 2015	December 31, 2014
Demand deposits	2,441,632	6,230,123
Term deposits	1,259,004	1,139,880
Borrowings	13,555,171	16,467,781
Expenses deferred at the effective interest rate (deductible item)	(108,817)	(142,034)
Other	12,327	47,268
Balance at December 31	**17,159,317**	**23,743,018**

Short-term RSD deposits placed by banks were deposited for periods of up to one year at interest rates ranging from 2.55 % to 5.5% per annum. In 2015 the Bank had no liabilities per long-term foreign currency deposits placed by banks.

Decrease in RSD transaction deposits mainly relates to the withdrawal of demand deposits of Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 4,740,993 thousand.

Within borrowings the Bank recognized total liabilities for foreign lines of credit due to non-residents and ex-territorial organizations which are treated as banks for the purposes of preparation of the statement of financial position.

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

	December 31, 2015	December 31, 2014
EFSE Fund	5,203,165	5,926,957
GGF	1,199,233	1,987,345
FMO	2,027,102	2,419,166
IFC	1,824,391	1,814,374
EBRD	3,301,280	4,319,939
Balance at December 31	**13,555,171**	**16,467,781**

The line of credit agreements executed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by the line of credit 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, 2015, the Bank was in full compliance with all the contractually defined financial ratios toward the aforelisted foreign creditors.

During 2015, per line of credit obtained EBRD the Bank repaid the principal amount of EUR 8,571 thousand, or RSD 1,028,703 thousand in RSD equivalent.

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, 2015	December 31, 2014
Corporate customers		
Demand deposits	48,595,259	50,212,715
Overnight and other deposits	14,869,789	24,092,376
Borrowings	11,687,719	12,694,050
Earmarked deposits	7,317,913	8,115,734
Deposits for loans approved	773,109	674,136
Interest payable, accrued interest liabilities and other financial liabilities	761,349	737,675
Retail customers		
Demand deposits	18,688,616	14,399,711
Savings deposits	190,518,492	183,902,102
Earmarked deposits	2,745,406	2,148,492
Deposits for loans approved	1,654,322	1, 509,090
Interest payable, accrued interest liabilities and other financial liabilities	2,329,681	3,420,497
Other deposits	64,248	48,333
Balance at December 31	**300,005,903**	**301,954,911**

Corporate Customers' 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 2015, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate applied thereto equaled 0.1% p.a. for deposits with average monthly balances of over RSD 50 thousand.

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

In 2015 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 for 3 to 14 days and the key policy rate less 2.05 percentage points for deposits placed for up to a year. Short-term deposits of entrepreneurs were placed at interest rates from 1% to 2.95% annually for the minimum deposited amounts of RSD 300 thousand.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging from 0.1% to 0.8% annually for EUR deposits and from 0.4% to 1% annually for USD deposits.

Long-term RSD deposits of corporate customers were placed at an interest rate set at the National Bank of Serbia key policy annual rate decreased by 1.85 to 1.7 percentage points, while foreign currency deposits accrued interest at the annual rates from 1% to 1.3% annually for EUR deposits and from 1.3% to 1.4% annually for USD deposits.

Short-term deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 0.1% to 0.3% per annum.

Long-term deposits of corporate customers indexed to EUR exchange rate were placed at the annual interest rate of 0.5%.

Retail Customers' 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 0.05% and 0.1% for EUR and other currencies per annum.

In 2015 short-term RSD deposits of retail customers were placed at interest rates ranging from 2% to 4.5% annually and those in foreign currencies at rates from 0.05% to 0.7% and from 0.05% to 1% annually for EUR and other currencies, respectively.

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

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

Long-term RSD deposits of retail customers accrued interest at the rates between 4.75% and 5% annually, while annual interest rates from 1% to 1.35% and from 1% to 1.5% were applied to the EUR and other foreign currency deposits, respectively.

Within the line item of borrowings the Bank recognized total liabilities per foreign lines of credit due to non-residents defined as customers for the purposes of preparation of the statement of financial position.

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

	December 31, 2015	December 31, 2014
LEDIB 1 and 2 (Kingdom of Denmark)	39,696	19,602
Republic of Italy Government	649,398	798,788
European Investment Bank (EIB)	5,852,951	5,629,831
European Agency for Reconstruction (EAR)	280,630	197,913
KfW	4,865,044	6,047,916
Balance at December 31	**11,687,719**	**12,694,050**

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

The line of credit agreements executed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by the line of credit 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 line of credit agreements executed with 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, 2015	December 31, 2014
Foreign currency subordinated liabilities	6,081,305	6,047,915
Other liabilities (accrued interest liabilities)	13,532	14,077
Expenses deferred at the effective interest rate (deductible item)	(16,875)	(25,312)
Balance at December 31	**6,077,962**	**6,036,680**

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 6,081,305 thousand, i.e., EUR 50,000 thousand as of December 31, 2015. The loan matures for repayment at December 15, 2017.

36. PROVISIONS

Provisions relate to the following:

	December 31, 2015	December 31, 2014
Provisions for off-balance sheet items (Note 14)	540,123	568,424
Provisions for litigations (Note 39.4)	1,194,874	766,556
Provisions for employee benefits in accordance with IAS 19	374,023	305,615
Balance at December 31	**2,109,020**	**1,640,595**

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

36. PROVISIONS (Continued)

Movements on the accounts of provisions are provided below:

	2015				2014			
	Provisions for Off-Balance Sheet Items (Note 14)	**Provisions for Litigations (Note 39.4)**	**Provisions for Employee Benefits (IAS 19)**	**Total**	**Provisions for Off-Balance Sheet Items**	**Provisions for Litigations**	**Provisions for Employee Benefits (IAS 19)**	**Total**
Balance, January 1	568,424	766,556	305,615	1,640,595	473,647	10,900	280,585	765,132
Charge for the year	599,089	435,896	33,856	1,068,841	540,305	755,656	28,172	1,324,133
Provisions against actuarial gains within equity	-	-	34,552	34,552	-	-	27,779	27,779
Release of provisions	-	(7,578)	-	(7,578)	-			
Reversal of provisions	(627,390)	-		(627,390)	(445,528)	-	(30,921)	(476,449)
Balance at December 31	540,123	1,194,874	374,023	2,109,020	568,424	766,556	305,615	1,640,595

a) Provisions for Litigations

Provisions for litigations were recognized based on the estimated future outflows in the amount of lawsuit claims, including interest and court expenses.

The most significant provisions relate to:

Provisions for the arrangement with Intereksport a.d., Beograd (in bankruptcy) – per secured letters of credit issued in 1991 totaling RSD 947,664 thousand – this legal suit was split into two separate cases – lawsuits regarding the settlement of a liability of Intereksport a.d., Beograd (in bankruptcy) by the Republic of Serbia, as follows:

- Lawsuit filed by the Republic of Serbia with the claim amount of USD 4,773 thousand for principal and USD 844 thousand for interest; and
- Lawsuit filed by Intereksport a.d., Beograd (in bankruptcy) with the claim amount of USD 1,948 thousand for principal and USD 881 thousand for interest.

Provisions for three new legal suits involving Dam Mont industrija d.o.o., Dvorište with the claim of RSD 34,764 thousand, Mr. Danilo Tomić with the claim of RSD 7,508 thousand and RS Privatization Agency (the case of Vektra M d.o.o., Beograd) with the claim of RSD 201,617 thousand for interest.

Additional information on the legal suit against RS Privatization Agency (the case of Vektra M d.o.o., Beograd):

At the proposal of the Privatization Agency dated May 15, 2015, the Commercial Court of Belgrade enacted a writ of execution no. Iv 3750/15 on May 20, 2015, whereby the Bank was obligated to pay the amount of RSD 196,523 thousand with the related interest accrued from July 4, 2007 up to the payment date as well as the court expenses.

The subject of the dispute is a performance guarantee of EUR 2,471 thousand issued under the Agreement on the Sale of Socially Owned Capital of DP Župa, executed on January 13, 2004 by and between the Republic of Serbia Privatization Agency and Vektra M d.o.o., Beograd.

The Bank received the aforesaid writ of execution on May 25, 2015 and filed an appeal to it, the case became a lawsuit.

The Bank made a provision for the amount of the guarantee from the said lawsuit (provisions for losses per off-balance sheet items) of RSD 260,686 thousand, while the interest accrued up to and inclusive of December 31, 2015 amounting to RSD 201,617 thousand was recognized within provisions for litigations.

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

36. PROVISIONS (Continued)

b) Provisions for Employee Benefits

Provisions for employee retirement benefits were made based on the report of an independent actuary as of the reporting date and were stated in the amount of the present value of expected future payments to employees.

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

	December 31, 2015	December 31, 2014
Discount rate	5.25%	8.75%
Salary growth rate within the Bank	2.00%	2.5%
Employee turnover rate	5.00%	5.00%

The discount rate applied was calculated as the average of the two rates – the National Bank of Serbia key policy rate for 2015 and derived interest rate on investment in the Government securities with similar maturities, which, due to the decrease in the discount rate, mostly gave rise to the increase in provisions in 2015.

37. OTHER LIABILITIES

Other liabilities include:

	December 31, 2015	December 31, 2014
Trade payables	187,831	198,960
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	269,768	272,955
Advances received	30,061	32,414
Accrued interest, fee and commission income	86,234	202,557
Accrued liabilities and other accruals	237,375	239,443
Liabilities in settlement	1,306,880	1,756,755
Dividend payment liabilities	2,586,716	277,367
Taxes and contributions payable	66,427	61,783
Other liabilities	149,076	146,875
Balance at December 31	**4,920,368**	**3,189,109**

Liabilities in settlement totaling RSD 1,306,880 thousand mostly, in the amount of RSD 729,757 thousand and RSD 185,016 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 totaling RSD 2,586,716 thousand refer to:
- preferred and convertible share dividend in the amount of RSD 152,414 thousand;
- ordinary share dividend in the amount of RSD 1,934,065 thousand; and
- tax liabilities to employees in the amount of RSD 500,237 thousand.

Pursuant to the Decision of the Bank's Shareholder Assembly no. 9200/2-3 dated June 4, 2015, the Bank made the following allocation for the 2014 profit distribution:
- ordinary share dividend in the amount of RSD 1,934,065 thousand;
- preferred share dividend in the amount of RSD 28,686 thousand; and
- tax liabilities to employees in the amount of RSD 347,000 thousand.
  However, the payment per Decision on profit distribution is restricted and conditioned by the fulfillment of the requirement prescribed by Article 25 of the Law on Banks.

In 2015 the Bank made no payments for distribution of the 2014 profit due to the aforesaid restriction.

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

38. EQUITY

38.1. Equity Structure

	December 31, 2015	December 31, 2014
Issued (share) capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	24,935,440	20,635,440
Revaluation reserves	2,606,825	2,120,959
Retained earnings	179,550	6,755,855
Current year's loss	(6,299,631)	-
Balance at December 31	61,456,734	**69,546,804**

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, 2015 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, 2015**	**December 31, 2014**
Ordinary shares	16,817,956	16,817,956
Preferred convertible shares	-	-
Preferred shares	373,510	373,510
Balance at December 31	**17,191,466**	**17,191,466**

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

38. EQUITY (Continued)

38.1. Equity Structure (Continued):

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2015 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
East Capital (LUX)-Balkan Fund	245,106	1.46
Invej d.o.o., Beograd	230,000	1.37
Evropa osiguranje a.d., Beograd in bankruptcy	173,420	1.03
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit bank, a.d., Srbija (custody account)	126,779	0.75
Stankom co. d.o.o., Beograd	117,535	0.70
East Capital (LUX) Eastern Europe	87,418	0.52
Erste bank a.d., Novi Sad	86,601	0.51
Others (1,138 shareholders)	1,262,251	7.51
	16,817,956	100.00

The structure of the Bank's shareholders with preferred shares at December 31, 2015 was as follows:

Shareholder	Share Count	% Interest
A private individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (619 shareholders)	270,280	72.37
	373,510	100.00

Revaluation reserves totaling RSD 2,606,825 thousand (2014: RSD 2,120,959 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 998,712 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 1,528,962 thousand and actuarial gains of RSD 79,151 thousand.

In 2015 prior years' dividends on preferred shares were paid in the amount of RSD 172 thousand for 2009, 2010 and 2013 dividends (2014: RSD 485,172 thousand).

In 2015 the Bank made no 2014 dividend payments. The total amount of dividend payment liabilities determined by the 2014 profit distribution relates to the following:

- dividend on preferred shares: RSD 28,686 thousand and
- dividend on ordinary (common stock) shares: RSD 1,934,065 thousand.

Preferred share dividend to be paid per 2015 Annual Accounts was calculated based on the interest rate applied to RSD term savings deposits placed for a period of 12 months and amounted to RSD 23,530 thousand.

38.2. Earnings per Share

Basic earnings per share are calculated by dividing the profit/(loss) attributable to the shareholders (of the parent entity) by the weighted average number of ordinary shares outstanding over the year.

	2015	2014
(Loss)/profit adjusted for preferred share dividend	(6,323,162)	4,246,824
Weighted average number of shares outstanding	16,817,956	16,817,956
Basic earnings per share (in RSD)	(376)	253

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

38. EQUITY (Continued)

38.2. Earnings per Share (Continued)

Basic EPS for 2015 amounted to RSD (376) or (37.60%) of the ordinary share par value, while the basic EPS for 2014 amounted to RSD 253 or 25.25% the ordinary share par value. Negative earnings per share in 2015 as compared to 2014 resulted from the Bank's current operating loss stated in the amount of RSD 6,414,158 thousand.

Diluted earnings per share for 2015 amounted to RSD (376) or (37.60%) of the ordinary share par value, while diluted EPS for 2014 amounted to RSD 253 or 25.25% the ordinary share par value.

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

	2015			2014		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities available for sale	643,195	(96,393)	546,802	695,067	(213,650)	481,417
Net decease due to actuarial losses	(34,552)	5,183	(29,369)	(27,779)	4,167	(23,612)
Valuation of property	(234)	(70)	(304)	(3,472)	634	(2,838)
Decrease due to fair value adjustments of equity investments and securities available for sale	2,568	(385)	2,183	(83,726)	40,611	(43,115)
Total	**610,977**	**(91,665)**	**519,312**	**580,090**	**(168,238)**	**411,852**

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2015	December 31, 2014
Managed funds	4,444,445	5,500,690
Commitments	27,670,176	32,766,979
Other off-balance sheet items	548,292,589	335,536,305
Total	**580,407,210**	**373,803,974**

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, 2015	December 31, 2014
Payment guarantees (Note 4.1.1)	4,702,206	4,767,131
Performance guarantees (Note 4.1.1)	6,503,652	7,883,510
Letters of credit	54,165	27,709
Acceptances of bills of exchange	-	27,185
Balance as at December 31	**11,260,023**	**12,705,535**

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

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

39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (Continued)

39.2 The breakdown of commitments is provided below:

	December 31, 2015	December 31, 2014
Unused portion of approved payment and credit card loan facilities and overdrafts	9,036,547	9,235,730
Irrevocable commitments for undrawn loans	7,036,513	7,311,860
Other irrevocable commitments	337,093	270,207
Other commitments per contracted value of securities	-	3,243,647
Balance as at December 31	16,410,153	20,061,444

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

Funds managed on behalf and for the account of third parties totaling RSD 4,444,445 thousand are mostly comprised of assets for consignment loans of the Republic of Serbia, the largest portion of which, in the amount of RSD 3,671,545 thousand, relates to the long-term housing loans extended to retail customers. Other managed funds mostly refer to loans approved for agriculture financed by competent RS Ministries.

Within other off-balance sheet assets totaling RSD 548,292,589 thousand the Bank, among other things, recorded tangible assets acquired in lieu of debt collection, collaterals securitizing loans and receivables in the amount of RSD 294,868,319 thousand, par value of securities involved in custody operations for the Bank's clients in the amount of RSD 110,525,635 thousand, par value of securities within the Bank's portfolio in the amount of RSD 131,584,745 thousand, repo investments in Treasury bills in the amount of RSD 1,200,000 thousand 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.

39.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal suits filed against the bank in 2015 in the total amount of RSD 1,194,874 thousand (2014: RSD 766,556 thousand) (Note 36).

As of December 31, 2015 contingent liabilities based on legal suits filed against the Bank amounted to RSD 3,207,002 thousand (for 301 active cases). The Bank's management anticipates no materially significant losses arising in the forthcoming period from the outcome of legal suits in excess of the provisions made (Note 36).

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 112,397,070 thousand (for 583 cases with the largest individual claim amounts – claims above RSD 10,000 thousand). The Bank's management anticipates favorable outcome of the most lawsuits.

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39. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (Continued)

39.5 Commitments for operating lease liabilities are provided below:

	December 31, 2015	December 31, 2014
Commitments due within one year	421,461	450,325
Commitments due in the period from 1 to 5 years	1,418,925	1,190,071
Commitments due in the period longer than 5 years	130,069	230,741
Total	**1,970,455**	**1,871,137**

39.6 Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Bank's management believes that the Bank's tax liabilities recorded in these financial statements are appropriately stated.

In 2015 the Bank was subject to the Tax Administration's field inspection of calculation and payment of withholding taxes and contributions for the period from January 1, 2013 to April 20, 2015. No irregularities were identified.

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 is the Parent Bank for 3 subsidiaries: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

Legal entities are treated as related parties if one legal entity has control over another legal entity or exercises significant influence over financial and business decisions of another entity. Related parties are also entities that are under joint control of the same parent entity.

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

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

A. Balance at December 31, 2015

RECEIVABLES

Subsidiaries	Loans and Receivables	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	6,582	868		7,450	-	**7,450**
Komercijalna banka a.d., Banja Luka	573,380	-	2,599	575,979	-	**575,979**
KomBank Invest a.d., Beograd	-	77	-	77	200	**277**
TOTAL	**579,962**	**945**	**2,599**	**583,506**	**200**	**583,706**

LIABILITIES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	875,044	-	1,698	876,742
Komercijalna banka a.d., Banja Luka	104,350	-	-	104,350
KomBank Invest a.d., Beograd	8,323	2	-	8,325
TOTAL	**987,717**	**2**	**1,698**	**989,417**

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40. RELATED PARTY DISCLOSURES (Continued)

A. Balance at December 31, 2015 (Continued)

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ (Expenses)
Komercijalna banka a.d., Budva	103	2,227	-	(1,770)	560
Komercijalna banka a.d., Banja Luka	8,956	2,297	-	(1,020)	10,233
KomBank Invest a.d., Beograd	-	702	(12)	-	690
TOTAL	**9,059**	**5,226**	**(12)**	**(2,790)**	**11,483**

Komercijalna banka a.d., Beograd incurred net foreign exchange losses in the amount of RSD 18,622 thousand in 2015 (2014: net foreign exchange gains of RSD 202 thousand) from related party transactions.

B. Balance 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 in 2014 (2013: net foreign exchange losses of RSD 1,189 thousand) from related party transactions.

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40. RELATED PARTY DISCLOSURES (Continued)

40.2. LOANS AND RECEIVABLES FROM AND LIABILITIES TO OTHER RELATED PARTIES

	2015			2014		
Loans and receivables	**On-Balance**	**Off-Balance**	**Total**	**On-Balance**	**Off-Balance**	**Total**
Lasta d.o.o., Sombor	1,003	-	1,003	4,065	-	4,065
VIŠ trade d.o.o., Vršac	1,757	919	2,676	970	1,331	2,301
DESK d.o.o., Beograd	-	-	-	1	20	21
FUTURA Fakultet za primenjenu ekologiju Beograd		-	-	98	1,804	1,902
Saša Ristić, Attorney at Law, Kruševac	-	-	-	5	-	5
MEPLAST d.o.o., Kruševac	132		132	665	-	665
MENTA d.o.o., Niš	-	6,000	6,000	1	6,000	6,001
Private individuals	76,663	15,864	92,527	650,171	88,604	738,775
Total	**79,555**	**22,783**	**102,338**	**655,976**	**97,759**	**753,735**

Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
Lasta d.o.o., Sombor	1,630	-	1,630	2,458	-	2,458
VIŠ trade d.o.o., Vršac	6	-	6	11	-	11
DESK d.o.o., Beograd	-	-	-	1	-	1
FUTURA Fakultet za primenjenu ekologiju Beograd	-	-	-	853	-	853
Saša Ristić, Attorney at Law, Kruševac	1	-	1	3	-	3
MEPLAST d.o.o., Kruševac	1,240	-	1,240	1,422	-	1,422
MENTA d.o.o., Niš	516	-	516	1,233	-	1,233
ABD COMPANY d.o.o., Beograd – in liquidation	12	-	12			
Amfibija	4	-	4	-	-	-
JOY M&M d.o.o., Beograd	26	-	26	-	-	-
Nova pekara d.o.o., Užice	788	-	788	-	-	-
Vladan Perišić Entrepreneur, Zrenjanin	22	-	22	-	-	-
MM Energo 2010 d.o.o., Užice	14	-	14	-	-	-
EBRD (Note 33)	-	3,301,280	3,301,280	-	4,391,939	4,391,939
International Finance Corporation (Notes 33, 35)	-	7,905,696	7,905,696	-	7,862,290	7,862,290
Others – entrepreneurs	13	-	13	-	-	-
Private individuals	323,484	-	323,484	403,311	-	403,311
Total	**327,756**	**11,206,976**	**11,534,732**	**409,292**	12,254,229	**12,663,521**

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40. RELATED PARTY DISCLOSURES (Continued)

40.2. INCOME AND EXPENSES FROM/TO OTHER RELATED PARTIES

	2015		
	Interest	Fees and Commissions	Total
Income			
Lasta d.o.o., Sombor	259	212	471
VIŠ trade d.o.o., Vršac	59	88	147
DESK d.o.o., Beograd	-	33	33
Saša Ristić, Attorney at Law, Kruševac	-	6	6
MEPLAST d.o.o., Kruševac	43	46	89
MENTA d.o.o., Niš	-	308	308
Private individuals	6,210	5,518	11,728
Nova pekara d.o.o., Užice	-	150	150
Goran Damnjanović Entrepreneur, Kruševac	-	18	18
Vladan Perišić Entrepreneur, Zrenjanin	-	4	4
Others	-	23	23
Total income	**6,571**	**6,406**	**12,977**

Expenses	Interest	Fees and Commissions	Total
Lasta d.o.o., Sombor	-	37	37
VIŠ trade d.o.o., Vršac	-	63	63
EBRD	136,345	-	136,345
International Finance Corporation	371,601	585	372,186
Advokat Ristić Saša Kruševac	-	35	35
MEPLAST d.o.o., Kruševac	-	31	31
Goran Damnjanović Entrepreneur, Kruševac	-	30	30
JOY M&M d.o.o., Beograd	-	31	31
Nova pekara d.o.o., Užice	-	31	31
Vladan Perišić Entrepreneur, Zrenjanin	-	34	34
Dragoljub Zumberović, Entrepreneur k, Užice	-	34	34
Private individuals	12,086	6,048	18,134
Total expenses	**520,032**	**6,959**	**526,991**
Expenses, net	**(513,461)**	**(553)**	**(514,014)**

Note: Income and expenses from/to other related parties were not disclosed in the 2014 financial statements.

40.3. 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, 2015	December 31, 2014
Gross remunerations		
Executive Board	110,522	78,485
Net remunerations		
Executive Board	96,255	67,031
Gross remunerations		
Board of Directors and Audit Committee	29,720	30,540
Net remunerations		
Board of Directors and Audit Committee	18,783	19,344

In 2015 there were changes in the members of the Executive Board and contractually agreed consensual tenure termination benefits were paid (with the treatment as salaries), which directly affected increase in the above stated gross and net remunerations year on year.

As of December 31, 2015 the aggregate balance of loans approved to the members of the Executive Board, Board of Directors and Audit Committee amounted to RSD 116,145 thousand (2014: RSD 112,637 thousand).

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41. EVENTS AFTER THE REPORTING PERIOD

At its session held on January 27, 2016, the Bank's Shareholder Assembly enacted Decision on relief and appointment of a member and President of the Bank's Board of Directors, at the proposal of the Government of the Republic of Serbia. This Decision became effective at the date of adoption by the Bank's Assembly but not before an approval of the National Bank of Serbia was obtained, which was on January 28, 2016.

Under the Decision of the Bank's Board of Directors and based on the approval obtained from the National Bank of Serbia, on January 29, 2016, a new member of the Executive Board was appointed CFO.

Under the Decision of the Bank's Board of Directors (effective as from February 3, 2016), two members of the Executive Board were relieved.

In respect of the customer RRTU Euro-Kop-Company, in the bankruptcy proceedings instigated over its guarantor VP Južna Morava, the Bank was contested its claims and security rights (collateral located in Niš with the appraised value of EUR 520,000). On January 12, 2016 the Bank filed a lawsuit for recognition of its claims and security rights.

On February 19, 2016 the Bank collected receivables from the bankruptcy debtor Stevanović-Invest d.o.o., Kruševac in Bankruptcy in the amount of RSD 146,259 thousand through an auction mortgage sale.

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual asset/liability count performed as of December 31, 2015, the Bank had unreconciled outstanding item statements totaling RSD 16,851 thousand. Statements unreconciled with 31 customers mostly relate to the clients contesting the amount or the manner of calculation of interest and fees and rentals.

Unrealized Dividends

Unrealized dividends payable in 2016 amount to:
- for 2014: RSD 1,934,065 thousand for preferred shares and RSD 28,686 thousand for priority shares (6.29% of the par value of priority shares; at November 24, 2014, shares at the rate of 6.29% were converted into ordinary shares) (Note 38.1);
- for 2013: RSD 123,727 thousand (9.91% of the par value of preferred convertible shares).

Contingent liabilities for preferred/priority dividend payment based on the calculation made for 2015 amount to RSD 23,530 thousand (Note 38.1).

There have been no significant events after the reporting date that would require adjustments to or additional disclosures in the Notes to the accompanying financial statements of the Bank as of December 31, 2015.

42. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) as of December 31, 2015 and 2014 were as follows:

	December 31, 2015	In RSD December 31, 2014
USD	111.2468	99.4641
EUR	121.6261	120.9583
CHF	112.5230	100.5472

In Belgrade, on April 6, 2016

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

Jelena Đurović	Alexander Picker
Member of Executive Board	Executive Board Chairman