KOMERCIJALNA BANKA A.D., BEOGRAD

Financial Statements
Year Ended December 31, 2016
and Independent Auditors' Report

CONTENTS

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

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Report on Financial Statements

We have audited the accompanying separate financial statements of Komercijalna banka a.d. Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

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Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual separate financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual separate financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the separate financial statements of the Bank for the year ended 31 December 2016.

Other matter

The separate financial statements of the Bank for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those statements on 6 April 2016.

Belgrade, 23 March 2017

PREDUZEĆE ZA REVIZIJU Ernst & Young II d.o.o. BEOGRAD

Jelena Čvorović

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

Jelena Čvorović
Authorised Auditor

INCOME STATEMENT
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016.	2015. Restated *
Interest income	8	16,689,075	19,094,582
Interest expenses	8	(3,226,341)	(5,326,500)
Net interest income		**13,462,734**	**13,768,082**
Fee and commission income	9	6,252,370	6,004,106
Fee and commission expenses	9	(1,435,056)	(1,104,159)
Net fee and commission income		**4,817,314**	**4,899,947**
Net gains on the financial assets held for trading	10	70,478	3,186
Net gains on the financial assets available for sale	11	69,062	(8,664)
Net foreign exchange losses and negative currency clause effects	12	(9,282)	(13,439)
Net gains on investments in associates and joint ventures	13	5,143	-
Other operating income	13	573,235	460,419
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet items	14	(14,907,539)	(13,008,526)
Total operating income		**4,081,145**	**6,101,005**
Staff costs	15	(4,498,212)	(4,121,590)
Depreciation and amortization charge	16	(666,025)	(797,401)
Other expenses	17	(7,294,544)	(7,357,899)
(Loss)/Profit before taxes	36	**(8,377,636)**	**(6,175,885)**
Gains on created deferred tax assets and decrease in deferred tax liabilities	18	314,453	114,554
Losses decrease in deferred tax assets and created deferred tax liabilities	18	-	(27)
(Loss)/Profit for the year		**(8,063,183)**	**(6,061,358)**
Earnings per share			
Basic earnings per share		(0.480)	(0.362)
Diluted earnings per share		(0.480)	(0.362)

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

*Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made (refer to Note 3.1.)

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 22 March 2017.

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

Slađana Jelić Deputy Chairmen of the Executive Board	Alexander Picker Executive Board Chairman

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016.	2015. Restated *
(Loss)/Profit for the year		(8,063,183)	(6,061,358)
Other comprehensive income			
Increase/(decrease) in revaluation reserves in respect of intangible assets, property, plant and equipment	18	58,580	(234)
Actuarial losses	18; 34	(3,626)	(34,552)
Net increase from the fair value adjustment of equity investments and securities available for sale	18	626,803	1,990,515
Losses from taxes related to the other comprehensive income	18	(96,549)	(293,378)
Other comprehensive income for the year, net of taxes		585,208	1,662,351
Total comprehensive income for the year		(7,477,975)	(4,399,007)

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These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 22 March 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

BALANCE SHEET
As of December 31, 2016
(Thousands of RSD)

	Note	31.12.2016.	31.12.2015. Restated *	01.01.2015.
ASSETS				
Cash and cash funds held with the central bank	19	55,153,209	63,523,715	68,547,389
Financial assets at fair value through profit and loss, held for trading	20	242,920	851,056	121,634
Financial assets available for sale	21	136,123,853	128,756,408	95,481,249
Financial assets held to maturity	22	-	-	51,442
Loans and receivables due from banks and other financial institutions	23	40,601,413	16,844,000	34,737,605
Loans and receivables due from customers	24	150,411,409	162,742,565	185,377,035
Investments in subsidiaries	25	2,611,859	5,480,888	5,480,888
Intangible assets	26	362,507	216,830	405,774
Property, plant and equipment	27	5,856,458	6,139,572	6,329,077
Investment property	28	2,217,816	2,744,026	2,581,144
Current tax assets	18	-	37,017	73,835
Non-current assets held for sale and assets from discontinued operations	29	183,170	63,314	84,227
Other assets	30	6,252,855	6,040,483	6,990,225
Total assets		400,017,469	393,439,874	406,261,524
LIABILITIES AND EQUITY				
Deposits and other liabilities due to banks, other financial institutions and the central bank	31	7,834,962	17,159,317	23,743,018
Deposits and other liabilities due to customers	32	322,621,360	300,005,903	301,954,911
Subordinated liabilities	33	6,178,390	6,077,962	6,036,680
Provisions	34	1,787,294	2,109,020	1,640,595
Deferred tax liabilities	18	23,592	329,258	150,407
Other liabilities	35	6,147,569	4,920,368	3,189,109
Total liabilities		344,593,167	330,601,828	336,714,720
Equity	36			
Issued capital and share premium		40,034,550	40,034,550	40,034,550
Profit		349,698	179,550	6,755,855
Loss		(8,063,183)	(6,061,358)	-
Reserves		23,103,237	28,685,304	22,756,399
Total equity attributable to the owners of the Bank		55,424,302	62,838,046	69,546,804
Total liabilities and equity		400,017,469	393,439,874	406,261,524

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

*Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made (refer to Note 3.1.)

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 22 March 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Alexander Picker
Executive Board Chairman

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

	Issued Capital (Note 36)	Share Premium (Note 36)	Revaluation Reserves (Note 36)	Reserves from Profit and Other Reserves (Note 36)	Retained Earnings/ Accumulated Losses (Note 36)	Total (Note 36)
Balance at January 1, 2016	17,191,466	22,843,084	3,749,864	24,935,440	(5,881,808)	62,838,046
Loss for the year	-	-	-	-	(8,063,183)	(8,063,183)
Other comprehensive income for the year, net of income tax						
Increase in revaluation reserves from property, plant and equipment	-	-	58,580	-	-	58,580
Net increase based on the change in the fair value of equity investments and securities available-for-sale	-	-	615,885	-	-	615,885
Actuarial losses	-	-	(3,626)	-	-	(3,626)
Tax effects on other comprehensive income	-	-	(85,631)	-	-	(85,631)
Other comprehensive income for the year, net of tax	-	-	585,208	-	-	585,208
Total comprehensive income for the year	-	-	585,208	-	(8,063,183)	(7,477,975)
Coverage of loss from 2015 from legal reserves and retained earnings	-	-	-	(6,143,612)	6,143,612	-
Liabilities for dividends	-	-	-	-	(23.531)	(23.531)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	(23.663)	-	23.663	-
Other increases / decreases	-	-	-	-	87,762	87.762
Balance at December 31, 2016	17,191,466	22,843,084	4,311,409	18,791,828	(7,713,485)	55,424,302
Balance at January 1, 2015	17,191,466	22,843,084	2,120,959	20,635,440	6,755,855	69,546,804
Loss for the year	-	-	-	-	(6,299,631)	(6,299,631)
Correction (note 3.1)	-	-	-	-	238,273	238,273
Corrected loss for the year	-	-	-	-	(6,061,358)	(6,061,358)

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

	Issued Capital	Share Premium	Revaluation Reserves	Reserves from Profit and Other Reserves	Retained Earnings/ Accumulated Losses	Total
Other comprehensive income for the year, net of income tax						
Increase 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
Correction (note 3.1)	-	-	1,344,752			1,344,752
Corrected net increase based on the change in the fair value of equity instruments and securities available for sale	-	-	1,990,515	-	-	1,990,515
Actuarial losses	-	-	(34,552)	-	-	(34,552)
Tax effects on other comprehensive income	-	-	(91,665)	-	-	(91,665)
Correction (note 3.1)	-	-	(201,713)	-	-	(201,713)
Corrected tax effects on other comprehensive income			(293,378)	-	-	(293,378)
Other comprehensive income for the year, net of tax	-	-	1,662,351	-	-	1,662,351
Total comprehensive income for the year	-	-	1,662,351	-	(6,061,358)	(4,399,007)
Transfer of 2014 retained earnings portion to legal reserves	-	-	-	4,300,000	(4,300,000)	-
Liabilities for dividends	-	-	-	-	(1,962,751)	(1,962,751)
Liabilities for employee share in profit	-	-	-	-	(347,000)	(347,000)
Gains realized from the reserves (effect of depreciation)	-	-	(33,446)	-	33,446	-
Balance at December 31, 2015	17,191,466	22,843,084	3,749,864	24,935,440	(5,881,808)	62,838,046

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 22 March 2017.

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

Slađana Jelić	Alexander Picker
Deputy Chairmen of the Executive Board	Executive Board Chairman

STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(Thousands of RSD)

	2016.	2015.
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**24,168,618**	**24,993,470**
Interest receipts	17,682,430	18,907,936
Fee and commission receipts	6,248,817	5,905,480
Receipts of other operating income	221,659	176,478
Dividend receipts and profit sharing	15,712	3,576
Cash used in operating activities	**(16,181,571)**	**(17,173,857)**
Interest payments	(4,299,376)	(5,916,977)
Fee and commission payments	(1,434,203)	(1,107,769)
Payments to, and on behalf of employees	(4,399,017)	(4,091,120)
Taxes, contributions and other duties paid	(805,896)	(786,499)
Payments for other operating expenses	(5,243,079)	(5,271,492)
Net cash inflows from operating activities prior to changes in loans and deposits	**7,987,047**	**7,819,613**
Decrease in loans and increase in deposits received and other liabilities	**35,586,694**	**25,553,710**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	-	25,553,710
Decrease in financial assets initially recognized at fair value through profit and loss, held for trading and other securities not held for investment	12,275,923	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	23,310,771	-
Increase in loans and decrease in deposits received and other liabilities	**(15,390,102)**	**(10,334,942)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(15,390,102)	
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)
Increase 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	**28,183,639**	**23,038,381**
Dividends paid	(119,477)	(403)
Net cash generated by operating activities	**28,064,162**	**23,037,978**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	**38,321,634**	**28,572,615**
Proceeds from investment securities	38,321,128	28,543,487
Proceeds from the sales of intangible assets, property, plant and equipment		
Proceeds from sales of investment properties	506	27,522
		1,606
Cash used in investing activities (from 3041 to 3045)	**(55,450,645)**	**(56,331,077)**
Cash used for investment securities	(54,924,710)	(55,963,431)
Cash used for the purchases of intangible assets, property, plant and equipment	(525,935)	(367,646)
Net cash used in investing activities	**(17,129,011)**	**(27,758,462)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**122,944,052**	**120,246,775**
Inflows from the borrowings	122,944,052	120,246,775
Cash used in financing activities	**(135,370,304)**	**(124,556,276)**
Cash used in the repayment of borrowings	(135,370,304)	(124,556,276)
Net cash generated by financing activities		
Net cash used in financing activities	**(12,426,252)**	**(4,309,501)**
TOTAL CASH INFLOWS	221,020,998	199,366,570
TOTAL CASH OUTFLOWS	(222,512,099)	(208,396,555)
NET CASH INCREASE	-	-
NET CASH DECREASE	(1,491,101)	(9,029,985)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,227,664	45,160,177
FOREIGN EXCHANGE GAINS	209,047	97,472
FOREIGN EXCHANGE LOSSES	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	**34,945,610**	**36,227,664**

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 22 March 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

1. BANK'S ESTABLISHMENT AND ACTIVITY

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

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

Republic of Serbia	41.74%
EBRD, London	24.43%

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

As of December 31, 2016, the Bank was comprised of the Head Office in Belgrade at the address of no. 14, Svetog Save St., 23 branches and 208 sub-branches in the territory of the Republic of Serbia (December 31, 2015: 24 branches and 209 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2016, the Bank had 2,858 employees (December 31, 2015: 2,877 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 2016 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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

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

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

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

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2016:

- **IAS 27 Separate Financial Statements (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management had not made use of this amendment.

- **IAS 1: Disclosure Initiative (Amendment)**

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has not made use of this amendment.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has not made use of this assessment.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Bank had no transactions in scope of this amendment.

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

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

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Bank does not have any plans that fall within the scope of this amendment.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Bank's financial statements:

  - ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

  - ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

  - ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

  - ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

  - ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

  - ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

  - ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

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

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

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Bank's financial statements

  - ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

  - ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

  - ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

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

2.3. Standards and Interpretations in Issue not yet in Effect

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

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard (please see further under the same Note 2.3.)

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Management is in the process of assessing the effect that the requirements of this standard will have on the financial statements of the Bank.

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

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

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

The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

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

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the amendments of this standard will have effect 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)

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

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

Key requirements of IFRS 9:

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018. In 2016 the Bank set up a multisector implementation team ('the Team') with members from its Risk, Finance and other business units to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the deputy Chief Executive Officer and competent for risk . Bank engage consultant to help to IFRS 9 be successfully implemented. As result of analyses of business model it is not determined that there are some facts that indicate that business model is not hold to collect payments from principal and interest. Currently, the Bank are finishing analysis in phases of classification and measurement and analysing elements of improving methodology of impairment and disclosure requirements.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

During initial assessment Bank expect that:

- Loans and advances to customers and banks, that are classified as loans and receivables under IAS 39 are expected to in the most part be measured at amortised cost under IFRS 9 with eventual adjustments of contractual provisions.
- Financial instruments held for trading and those designated at FVPL are expected to be continue to be measured at FVPL
- The debt securities classified as available for sale under IAS 39 are expected to be measured as FVPL, amortised cost or FVOCI. . As described above, the Bank is in the early stage of implementation of IFRS 9 and working with consultants on initial assessment of measurement of debt AFS securities.
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

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

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

Key requirements of IFRS 9 (continued):

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank is analysing in which part of portfolio credit risk was increased significantly since initial recognition in order to include default rate for remaining life time for financial instrument for calculation of ECL. Establishing of this on regular bases is in process.

ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Bank under the contract, and
- The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The total loan portfolio would be group into Stage 1, Stage 2 and Stage 3:

- **Stage 1** – Performing loans when increase of credit risk is not detect from first recognition. The Bank calculates allowance based on 12-month expected credit losses.
- **Stage 2** – Underperforming loans when significantly increase of credit risk is detect from first recognition.

The Bank calculates an allowance for the lifetime expected credit loss.

- **Stage 3** – Impaired loans.

The Bank recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortised cost of the loan net of allowances.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

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

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

Key requirements of IFRS 9 (continued):

Stage 1

The impairment of financial instruments that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis under IFRS 9 but it is expected to be on higher level as result of not using collaterals as deductible items from gross exposure.

Stage 2

All financial instruments with increase of credit risk from initial recognition would be classified in Stage 2 and loss allowance would calculated based on their lifetime ECLs, what is a new concept compared to IAS 39. The result of that would be increase of allowance relative of level of loan allowance calculate at the end of 2016.

The Bank considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. It is the Bank's policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

Stage 3

As well as under IAS 39, financial instument will be included in Stage 3 when there is objective evidence that the loan is credit impaired and it is not expected to the population in stage 3 be changed. Impairment on an individual basis will continue to be calculated on the same basis.

It is expected that loans in stage 3 will be the same as those considered to be impaired in accordance with IAS 39.

When forbearance results in the derecognition of the original loan the new loan will be classified as originated credit-impaired.

Forward looking information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Bank will consider forward-looking information such as macroeconomic factors (e.g. unemployment, GDP growth, interest rates and house prices) and economic forecasts.

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

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

Key requirements of IFRS 9 (continued):

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. The Bank will use data that is as current as possible and adjustments will be made for significant events occurring prior to the reporting date to. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provisions for the effect of IFRS 9.

2.4. Going Concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation

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

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

The Bank's consolidated financial statements are prepared and disclosed separately. In Bank's separate financial statements, investments in subsidiaries are measured at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign Exchange Translation

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

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

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

		In RSD
	2016.	**2015.**
USD	117.1353	111.2468
EUR	123.4723	121.6261
CHF	114.8473	112.5230
JPY	1.00441	0.92400

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

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

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

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

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

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.

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

(e) Net Trading Income

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

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

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

g) Dividends

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

(h) Operating and Finance Lease Payments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Tax Expenses

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

(i) Current Income Tax

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

(ii) Deferred Income Tax

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

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

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

(iii) Other Taxes and Contributions

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

(j) Financial Assets and Liabilities

(i) Recognition

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(ii) Classification

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

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

(iii) Derecognition

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

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

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

(iv) Offsetting

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vi) Fair Value Measurement

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vii) Identification and Measurement of Impairment

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and Cash Equivalents

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

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

(l) Trading Assets and Liabilities

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

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs directly recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets 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 include forward and swap transactions. Financial derivatives are initially recognized at cost and are subsequently measured at market value. Market values are ascertained based on quoted prices on an active market, as well as by using different valuation techniques, including discounted cash flows. Financial derivatives are accounted for under assets if their market value is positive, and under liabilities if their market value is negative. Fluctuations in market value of financial assets are reported in the statement of comprehensive income, under net trading income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Loans and Receivables

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

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

(n) Investment Securities

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

(i) Held-to-Maturity Financial Assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investment Securities (continued)

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

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

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

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

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

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

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

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.

In 2016, the Bank has amended the Methodology for valuation of securities due to adjustment of prior year error (Note 3.1).

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

Asset	**Estimated useful life (in years)**	**Rate %**
Buildings	40	2.50%
Computer equipment	4	25%
Furniture and other equipment	5 – 15	6.7%-50%
Leasehold improvements	1 – 23	4.25%-86.2%

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible Assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 7 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Impairment of Non-Financial Assets

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

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

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

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

(t) Deposits, Borrowings and Subordinated Liabilities

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

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

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

(u) Provisions

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

(v) Employment Benefits

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

In accordance with the Labor Law, the Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2016 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 34(b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Financial Guarantees

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

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

(x) Capital and Reserves

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

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

(y) Earnings per Share

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

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

(z) Segment Reporting

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

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

Upon determining operating segments, the Bank uses the following:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1) Accounting policies, changes in accounting estimates and errors

As a result of adjustment of error, the Bank has changed the openning balance and result for 2015, and made adjustments as follows:

Overview of completed correction in the Balance Sheet			*In RSD '000*
	Before correction	**Correction in 2015**	**After correction**
Securities available for sale	127.173.383	1.583.025	128.756.408
TOTAL ASSETS	**127.173.383**	**1.583.025**	**128.756.408**
Deferred tax liabilities	23.592	201.713	225.305
Reserve-tax effects		(201.713)	(201.713)
Loss	(6.299.631)	238.273	(6.061.358)
Reserves-effect of transfer of premiums and discounts	27.542.265	(238.273)	27.303.992
Reserves-change in methodology		1.583.025	1.583.025
TOTAL EQUITY AND LIABILITIES	**21.242.634**	**1.583.025**	**22.825.659**

Overview of completed correction in the Income Statement			*In RSD '000*
	Before correction	**Correction in 2015**	**After correction**
Interest income	18.856.309	238.273	19.094.582
Net loss	(6.299.631)	238.273	(6.061.358)

Based on the requirements of IAS 39 Financial instruments: recognition and measurement, IFRS 13 Fair value measurement and IAS 8-Accounting policies, changes in accounting estimates and errors, the Bank has amended the methodology of the fair value calculation of securities available for sale, predominantly government bonds issued by the Republic of Serbia.

Previous methodology for valuation of available for sale securities

For treasury bills of the Republic of Serbia issued in euros, the yield curve was constructed on the basis of executive rates from the last primary trading auctions while for the coupon bonds issued in euros yield curve was constructed based on Euribor interest rates with maturities of 1d to 12m and based on swap rates for EUR over one year with the addition of risk premium that is equal to the difference between the coupon rate and the risk free interest rate whose tenor corresponded to the duration of the bond.

In the case of treasury bills of the Republic of Serbia issued in dinars, yield curve was constructed on the basis of Belibor interest rates with maturities of 1d to 6m and executive rates from the last auctions from primary trading for maturity longer than 6 monhts while in case of coupon bonds of the Republic of Serbia issued in dinars the yield curve considered risk premium that is equal to:

- Fixed margin in case of bonds whose coupons depends on the reference rate of the National bank of Serbia increased by fixed spread;
- The difference between the coupon rate and the risk free interest rate in case of bonds with fixed coupons

The fair value of the securities was determined by discounting each cash flow with different discount factors of the corresponding tenors of the yield curve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1) Accounting policies, changes in accounting estimates and errors (continued)

Reasons for the change and main assumptions of the new methodology

The previous methodology for fair valuation of securities has not taken into account the circumstances on the local market of securities neither the requirements of the prevailing accounting standards:

- The Bank was using different discount rates for different cash flows generated on one security while one discount rate for discounting all future cash flows on security should be used according to the standard , being the principal and interest, since one discount rate (which corresponds to maturity of security) reflects all risks related to that security.
- For treasury bills the Bank was using discount rate of zero since prime market, according to the Bank, for these securities was not developed leading to the situation where fair value was equaled to their pair value.
- For coupons bonds in euros, risk fre interest rates were euribor/swap rates while rates inherent to domestic market (rates applicable for euro dominated bonds issued in domestic market from the government) should be used.

Main assumptions of the new methodology were (i) basing the valuation model on actual conditions on the domestic market and (ii) changed parameters for determining the uniform discount rate of future cash flows for individual securities.

Amended methodology for valuation of available for sale securities

In the amended methodology, for determining the fair value of the treasury bills and coupon bonds of the Republic of Serbia issued in euros, the yield curve is constructed from the last available (in relation to valuation date) executive rates of securities issued in euros from primary trading for tenors that greater of equal to one year and the last available executive rates from the secondary trading of securities whose residual maturity is less than one year.

In the case of securities issued by the Republic of Serbia in dinars, improved methodology for the calculation of fair value is based on the yield curve based on the Belibor interest rates for maturities of 1d to 6m and executive rates from the last available auctions of primary trading for tenors over 6 months.

The fair value of the securities was determined by discounting each individual cash flow with discount rate whose tenor corresponds to the remaining maturity of the security.

The effects of changes in the methodology for calculating the fair value has been accounted for both in the current year and retrospective adjustment has been applied and the effects on prior year has been disclosed in the Available for sale (Note 21) and equity-retained earnings and revaluation reserves (Note 36).

By the correction of previous reporting period the Bank has applied the requirmenets of the IAS 8 which refers to the retrospective restatements of data due to correction of prior year error and disclosure for each line item of the financial statements to which it applies.

4. RISK MANAGEMENT

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

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

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

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

Taking into account the changes of regulations of the National Bank of Serbia and the need for further improvement of risk management, during 2016 the Bank carried out organizational and procedural changes to the risk management function (with special emphasis on the process of prevention and management of potentially risky loans and bad assets), as well as changes in internal procedures for governing risk management. By changing Strategy and risk management policies, the criteria for determining the basic principles of managing bad assets, as well as the highest acceptable level of non-performing loans for the Bank have been defined.

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

Risk Management System

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

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

Risk Management Strategy sets out:

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

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

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

Policies for managing certain risk types define the following:

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

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

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

In 2016 the Bank made the harmonization of internal documents (procedures and methodology) with modifications of regulations of the National Bank of Serbia, which relate to the management of credit risks, throughout comprehensiveness of definition of risky loans, termination of reprogramming and changes the definitions and methods of classification of restructured loans, as well as the implementation of regulations allowing relaxation of the calculated level of required reserves for potential losses, based on proactive management and reducing the level of problematic loans. In addition, the criteria for the materially significant loans that are individually assessed, the estimated value of collateral, appraisers, haircut, a change in the dynamics of the valuation of commercial real estate for NPL and annual analysis of movements in market value, as a requirement for the adequacy of the collateral, has been more closely defined.

In addition, the procedure of the prevention of corporate risky loans was adopted, in order to identify potentially risky (Watch List-a) clients, to mitigate credit risk of potentially risky clients and taking measures and actions in order to protect the interests of the Bank and to prevent adverse effects on the financial result and equity.

4. RISK MANAGEMENT (continued)

Risk Management System (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 risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Bank is exposed to. The Executive Board analyzes the risk management system, and at least once quarterly reports to the Board of Directors on the level of risk exposure and risk management, and decide, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to an entity related to the Bank and notifies the Board of Directors..

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

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

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

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

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

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

The Internal Audit Division is responsible for continued monitoring of implementation of risk management policies and procedures, and tests the adequacy of procedures and the Bank's compliance 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, whereof it prepares a report and submits it to the Executive Board and Board for Monitoring of the Bank's operation.

4. RISK MANAGEMENT (continued)

Risk Management Process

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

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

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

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

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

Risk Types

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

4.1. Credit Risk

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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.

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

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

In 2016, in compliance with the changed regulations of the National Bank of Serbia, the Bank aligned the way of classification of restructured loans, changed the method of calculation of reserves for estimated losses for newly approved loans after 30 September 2016, classified in category B, as well as method of calculation of required reserves, which is deducted from equity in accordance with a decrease in the percentage of NPLs in the non-financial and non-government sector in relation to the balance as of 30 June 2016.

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

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

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

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

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.

Identification of problematic and restructured claims

The Bank monitors the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

Restructured non-problematic customers are classified into the category of potentially risky customers, while restructured problematic clients are classified into the category of clients with problematic claims.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of clients in the Standard category of clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementation of preventive actions against risky placements, i.e. mitigation and reduction of credit risk through the implementation of appropriate strategies and action plans. Potentially risky clients are monitored more frequently compared to standard clients and if further increase in credit risk is determined, clients are classified into the category of clients with problematic claims.

Problematic claims include all the claims that are late in settling obligations over 90 days, claims for which based on assessed financial position is estimated that the borrower will not be able to meet its obligations in full without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), claims for which the impairment loss is determined on an individual basis, as well as contingent liabilities arising from guarantees issued (if there is likely to be activated), and irrevocable commitments (if activating them would lead to new receivables for which the Bank considers it would not be collected in full without the realization of collateral). Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred.

The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (reduction of interest rates, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. In addition, receivables that are classified in the category of restructured debts are those for which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Bank has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Bank (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

The Bank regularly monitors the measures taken to restructure the risky placements and controls the timing of taking these measures. Monitoring of the measures taken, or the realization of the same, such as settlement of due liabilities, is carried out on a daily basis. The semi-annual monitoring of restructured business clients is performed regularly every 6 months or more often if necessary. Analysis of financial statements, analysis of indebtedness, verification of adequacy of collaterals and monitoring overall operations are the key points of above mentioned monitoring.

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the group of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not grater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

Downgrade Risk

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

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

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

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

Risk of Change in Value of Assets

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

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

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

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

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

Individual Assessment

The Bank assesses impairment of each individually significant loan with default status (risky placement, risk category 4 according to internal rating system which has default status and risk category 5) and considers the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Bank will be settled, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Bank determines based on the analysis of value structure of its portfolio by customer and product.

Allowance for impairment on an individual basis is calculated if there is objective evidence of impairment that is a result of one or more events that occurred after the initial recognition of the financial asset, and if there is a measurable reduction in future cash flows.

The following is considered objective evidence indicating the need for loan impairment:

- Financial condition or creditworthiness of the debtor indicates significant problems in his business and the Bank has estimated that he will not be able to fulfill its obligations in full,
- Failure to meet contractual obligations, delinquency in payment of interest/principal and other contractual provisions (evidence of failure or delay in payment),
- Information about the blockade of the debtor's account,
- Concessions provided by the Bank to the debtor due to economic or legal reasons (evidence of an approved landfill charge, restructured receivables and other approved concessions due to financial difficulties in the business of the debtor),
- Significant difficulties in the business of the debtor (evidence of bankruptcy, liquidation, financial reorganization of the debtor, reduced rating of the debtor, a significant fall in revenue, a significant reduction in capital, damage due to force majeure that the debtor has suffered, loss of license, change of management, etc.),
- Internal and external factors that may affect the collectability of receivables (evidence of adverse changes in business conditions in some industries which are reflected on the financial ability of the debtor, evidence of macroeconomic trends: the decline in demand, falling prices, budget deficit, operations in times of crisis or recession, etc.),
- Local economic factors that cause collection problems.

Evidence can be documented by the analysis in Watch process, by information about the increased level of risk borrowers, reports of the meetings that were held with the debtor, reports on conducted monitoring of collateral clients, reports of forced collection and days of blockade, reports on loans in default and other information that the Bank has.

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

When there is objective evidence, the amount of the impairment is estimated by discounting the future cash flows from business. The calculation of the expected future cash flows also includes resources from the activation of collateral (secondary sources), if it is assessed that there is no objective evidence that the loan can be settled from the expected future cash flows from business and will realistically be settled from collaterals.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

Group Assessment

Impairment is assessed on a group basis for loans that are not individually significant and for individually significant loans that do not have the status of default, for loans for which the calculation on an individual basis has not determined the amount of impairment, as well as on basis of fees and other receivables that have elements for reducing the present value.

Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (credit groups by types of clients and loans), based on the internal rating system, on a monthly basis.

Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product.

Appreciating the specifics in doing business with clients, different migration matrixes are established for legal entities, for individuals by type of product, banks and entrepreneurs.

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities. The Bank also performs determination of probable loss for unused commitments, for which it has not contracted unconditionally and without notice, the possibility of cancellation of contractual obligations. When calculating provisions for unused commitments, the Bank uses the conversion factor (CCF), by which the book value of unused commitments is adjusted.

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

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that the Bank uses, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of credit risk.

As a standard collaterals Bank accepts contractual authorizations and bills from clients, while as an additional instrument, depending on the assessment of credit risk, and the types of loans, following instruments can be agreed:

- For commercial loans - pledge over movable and immovable assets (mortgages), deposits, bank, corporate and government guarantees, sureties, pledge over securities, stocks and receivables;
- For retail loans - mortgages on immovable properties, deposits, sureties, insurance from National corporation for insurance of housing loans and more

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

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

When assessing property or pledges over movable property, the Bank provides expert and independent assessment of the value of real estate by authorized appraiser, to reduce the potential risk of unrealistic valuation to a minimum. The premises, supplies, equipment and other movable property which is the subject of the pledge must be insured by an insurance company acceptable to the Bank, and the insurance policies must be endorsed in favor of the Bank.

In order to protect against changes in the market value of the collateral (mortgage, pledge, securities, etc.), the estimated value of collateral is adjusted for a defined percentage (haircut) depending on the type of collateral and the location, which is regularly reviewed and revised. In this way, the Bank protects itself from potential losses arising from the inability to collect receivables from collateral.

The correction factor (haircut) is the difference between the estimated value of collateral and the proceeds that can be realized by selling the collateral in the process of collection. Haircut reduces estimated market value of any collateral to the expected value that will be charged for its implementation in the future, and taking into account the volatility of the market value and the possibility of realizing cash outflows based on activation fee and sales (court costs, tax costs charged to seller, consultants and advertising costs and other costs), the expected decline in market value since the assessment time until the time of the planned realization, and the inherent uncertainty in determining the value.

The Bank pays attention to regular assessment/valuation of collateral. For performing loans (PE), mortgages on residential and commercial property are assessed at least once every three years by a licensed appraiser. For non-performing loans (NPE), a mortgage on a residential property is assessed at least once every three years, mortgages on office buildings (offices, shops, warehouses, building land with and without planning permission, agricultural land, etc.) at least once every 18 months, a mortgage on the industrial facilities are evaluated at least once a year (12 months), by a certified appraiser. Securities are assessed on a monthly basis, for all loans.

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from Bank's portfolio with movements in the market value in the Republic of Serbia market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the business real estates, the Bank conducts verification of value at least once a year, and for housing and other real estate at least once every three years.

The value of the collateral and the tendency of movement of it's value, the Bank monitors and updates to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2016 and 2015 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

	31.12.2016		31.12.2015	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**442,110,850**	**400,017,469**	**438,107,185**	**393,439,874**
Cash and cash funds held with the central bank	55,153,209	55,153,209	63,523,715	63,523,715
Loans and receivables due from banks and other financial institutions	40,911,287	40,601,413	17,243,760	16,844,000
Loans and receivables due from customers	180,056,414	150,411,409	199,026,572	162,742,565
Financial assets	136,532,653	136,366,773	129,705,503	129,607,464
Other assets	8,901,845	6,252,855	7,981,150	6,040,483
Non-montary assets	20,555,442	11,231,810	20,626,485	14,681,646
II. Off-balance sheet items	**31,819,175**	**31,388,234**	**28,081,278**	**27,541,155**
Payment guarantees	3,635,706	3,572,933	4,702,206	4,548,918
Performance bonds	6,728,901	6,695,266	6,503,652	6,392,930
Irrevocable commitments	20,862,103	20,811,873	16,303,173	16,303,173
Other items	592,465	308,162	572,247	296,133
Total (I+II)	**473,930,025**	**431,405,703**	**466,188,463**	**420,981,029**

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

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

In thousand RSD

31.12.2016	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Group impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	37,886,559	1,377,239	39,263,798	227,609	798,117	1,025,726	38,238,072
Cash Loans	-	-	19,158,862	733,472	19,892,334	251,092	731,087	982,179	18,910,155
Agricultural Loans	-	-	6,133,843	415,510	6,549,353	70,421	362,217	432,638	6,116,715
Other Loans	-	-	5,252,237	650,232	5,902,469	72,444	650,240	722,684	5,179,785
Micro Business	-		6,647,544	1,049,660	7,697,204	120,475	663,981	784,457	6,912,748
Total Retail	**-**	**-**	**75,079,045**	**4,226,113**	**79,305,159**	**742,041**	**3,205,643**	**3,947,684**	**75,357,475**
Large corporate clients	-	-	32,748,652	24,027,084	56,775,736	319,008	19,521,746	19,840,754	36,934,982
Middle corporate clients	-	-	16,393,603	3,048,236	19,441,839	191,212	2,173,057	2,364,269	17,077,570
Small corporate clients	-	-	6,661,894	1,856,370	8,518,264	108,851	1,130,266	1,239,117	7,279,146
State owned clients	775,175	-	7,912,023	1,674,358	10,361,556	64,686	562,870	627,556	9,734,000
Other	-	-	4,028,278	1,625,583	5,653,861	42	1,625,583	1,625,625	4,028,236
Total Corporate	**775,175**	**-**	**67,744,450**	**32,231,631**	**100,751,255**	**683,800**	**25,013,521**	**25,697,321**	**75,053,934**
Total	**775,175**	**-**	**142,823,495**	**36,457,744**	**180,056,414**	**1,425,841**	**28,219,164**	**29,645,005**	**150,411,409**
Due from banks	**40,601,413**	**-**	**-**	**309,874**	**40,911,287**	**-**	**309,874**	**309,874**	**40,601,413**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

In thousand RSD

31.12.2015	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Groupl impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	37,037,879	1,286,423	38,324,302	300,803	588,041	888,843	37,435,459
Cash Loans	-	-	16,598,429	698,664	17,297,093	285,996	698,664	984,660	16,312,433
Agricultural Loans	-	-	5,261,149	411,036	5,672,185	62,177	346,831	409,008	5,263,177
Other Loans	-	-	5,776,215	630,915	6,407,131	90,747	630,914	721,661	5,685,470
Micro Business	-	-	5,381,398	1,771,644	7,153,042	126,332	923,537	1,049,869	6,103,173
Total retail	**-**	**-**	**70,055,071**	**4,798,682**	**74,853,753**	**866,054**	**3,187,987**	**4,054,041**	**70,799,712**
Large corporate clients	-	-	29,888,613	33,235,310	63,123,923	239,080	19,462,909	19,701,989	43,421,934
Middle corporate clients			18,952,872	6,194,571	25,147,444	103,343	3,914,854	4,018,197	21,129,247
Small corporate clients	-	-	6,154,894	5,051,099	11,205,994	37,082	3,717,555	3,754,637	7,451,357
State owned clients	2,296,663	136,129	15,781,903	3,229,726	21,444,421	17,841	2,796,528	2,814,369	18,630,052
Other	-	-	1,263,852	1,987,185	3,251,038	454	1,940,320	1,940,775	1,310,263
Total Corporate	**2,296,663**	**136,129**	**72,042,135**	**49,697,892**	**124,172,819**	**397,800**	**31,832,166**	**32,229,966**	**91,942,853**
Total	**2,296,663**	**136,129**	**142,097,206**	**54,496,574**	**199,026,572**	**1,263,854**	**35,020,153**	**36,284,007**	**162,742,565**
Due from banks	**15,620,284**	**1,223,716**	**-**	**399,760**	**17,243,760**	**-**	**399,760**	**399,760**	**16,844,000**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment in Balance sheet

In thousand RSD

	31.12.2015.	Increase in impairment	Decrease in impairment	Other changes*	31.12.2016.
Retail	4,054,041	2,005,367	(1,859,729)	(251,995))	3,947,684
Corporate	32,229,966	19,375,522	(8,327,007)	(17,581,160)	25,697,321
Total	**36,284,007**	**21,380,889**	**(10,186,736)**	**(17,833,155)**	**29,645,005**
Due from banks	**399,760**	**-**	**-**	**(89,886)**	**309,874**

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

Impaired Loans and Receivables

Impaired loans and receivables are those for which the Bank has determined the existence of objective evidence of impairment and does not expect them to be collected in full amounts of principal and interest matured pursuant to the relevant loan agreements. Loans and receivables are impaired on both an individual and a group basis. Loans and receivables that are 100% impaired are in the individually impaired loans and receivables.

The significant increase in allowance for credit losses in 2016 is mostly a result of the deteriorating quality of the loan portfolio, the new problematic loans, lower values of mortgage and beggining of bankruptcy proceedings.

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 (receivables from Republic of Serbia). In 2016., the Bank did not have matured and not impaired placements.

Receivables not Matured and not Impaired

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

The Bank followed the Guideline o disclosure of information on the asset of the assets of National Bank of Serbia in preparation of the credit risk tables. The form and content of the tables are derived from the related Guideline.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans not impaired, by days past due

In thousand RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	-	-	-	-	-	-
Cash Loans	-	-	-	-	-	-
Agricultural Loans	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-
Micro Businesses	-	-	-	-	-	-
Retail clients	-	-	-	-	-	-
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	-	-	-	-	-	-
Small corporate clients	-	-	-	-	-	-
State owned clients	775,175	-	-	-	-	**775,175**
Other	-	-	-	-	-	-
Corporate clients	**775,175**	-	-	-	-	**775,175**
By receivables categories						
Non-problematic receivables	**535,531**	-	-	-	-	**535,531**
Out of which: restructured	-	-	-	-	-	-
Problematic receivables	**239,644**	-	-	-	-	**239,644**
Out of which: restructured	-	-	-	-	-	-
Total	**775,175**	-	-	-	-	**775,175**
Due from banks	**40,601,413**	-	-	-	-	**40,601,413**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans not impaired, by days past due

In thousand RSD

31.12.2015	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	-	-	-	-	-	-
Cash Loans	-	-	-	-	-	-
Agricultural Loans	-	-	-	-	-	-
Other Loans	-	-	-	-	-	-
Micro Businesses	-	-	-	-	-	-
Retail clients	-	-	-	-	-	-
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	-	-	-	-	-	-
Small corporate clients	-	-	-	-	-	-
State owned clients	2,296,663	-	-	-	136,128	**2,432,791**
Other	-	-	-	-	-	-
Corporate clients	**2,296,663**	**-**	**-**	**-**	**136,128**	**2,432,791**
By receivables categories						
Non-problematic receivables	**1,934,651**	**-**	**-**	**-**	**-**	**1,934,651**
Out of which: restructured	-	-	-	-	-	-
Problematic receivables	**362,012**	**-**	**-**	**-**	**136,128**	**498,140**
Out of which: restructured	-	-	-	-	-	-
Total	**2,296,663**	**-**	**-**	**-**	**136,128**	**2,432,791**
Due from banks	**15,627,732**	**1,216,268**	**-**	**-**	**-**	**16,844,000**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans impaired, by days past due

In thousand RSD

31.12.2016	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	36,669,540	459,350	144,202	293,472	1,697,234	**39,263,798**
Cash Loans	17,691,368	1,178,012	118,689	58,529	845,736	**19,892,334**
Agricultural Loans	5,845,278	188,304	49,179	18,329	448,263	**6,549,353**
Other Loans	4,928,681	287,545	23,343	13,204	649,696	**5,902,469**
Micro Businesses	5,716,370	870,835	28,826	15,573	1,065,600	**7,697,204**
Retail clients	**70,851,237**	**2,984,047**	**364,239**	**399,106**	**4,706,529**	**79,305,158**
Large corporate clients	35,161,014	3,575,993	49,512	-	17,989,216	**56,775,736**
Middle corporate clients	15,216,062	1,534,555	-	13,254	2,677,968	**19,441,839**
Small corporate clients	6,388,799	740,738	7,518	26,523	1,354,687	**8,518,264**
State owned clients	8,754,250	234,309	-	-	597,822	**9,586,381**
Other	5,563,821	1,239	-	-	88,801	**5,653,861**
Corporate clients	**71,083,946**	**6,086,834**	**57,030**	**39,777**	**22,708,494**	**99,976,081**
By receivables categories						
Non-problematic receivables	**135,841,998**	**5,403,288**	**311,907**	**315,777**	**3**	**141,872,973**
Out of which: restructured	2,014,929	176,746	10,745	9,734	-	**2,212,153**
Problematic receivables	**6,093,185**	**3,667,593**	**109,362**	**123,106**	**27,415,020**	**37,408,266**
Out of which: restructured	2,841,737	3,579,359	60,187	7,057	20,125,424	**26,613,763**
Total	**141,935,183**	**9,070,881**	**421,269**	**438,883**	**27,415,023**	**179,281,239**
Due from banks	**309,874**	**-**	**-**	**-**	**-**	**309,874**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Loans impaired, by days past due

In thousand RSD

31.12.2015	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
By type of loan						
Housing Loans	35,666,670	441,598	211,258	300,381	1,704,395	**38,324,302**
Cash Loans	15,363,373	943,022	104,969	80,396	805,333	**17,297,093**
Agricultural Loans	4,907,278	231,435	58,294	26,503	448,675	**5,672,185**
Other Loans	5,458,262	276,732	27,077	14,034	631,026	**6,407,131**
Micro Businesses	4,711,624	616,266	52,076	22,906	1,750,170	**7,153,042**
Retail clients	**66,107,207**	**2,509,053**	**453,674**	**444,220**	**5,339,599**	**74,853,753**
Large corporate clients	34,710,493	4,374,258	-	-	24,039,172	**63,123,923**
Middle corporate clients	17,537,600	858,503	95,966	656,781	5,998,594	**25,147,444**
Small corporate clients	5,677,657	462,908	20,295	-	5,045,133	**11,205,993**
State owned clients	15,546,999	273,911	7,613	-	3,183,107	**19,011,630**
Other	2,766,301	-	-	-	484,737	**3,251,038**
Corporate clients	**76,239,050**	**5,969,580**	**123,874**	**656,781**	**38,750,743**	**121,740,028**
By receivables categories						
Non-problematic receivables	**140,416,983**	**8,335,991**	**530,920**	**1,030,988**	**508**	**150,315,390**
Out of which: restructured	4,278,373	4,250,230	6,158	653,587	-	**9,188,348**
Problematic receivables	**1,929,274**	**142,642**	**46,628**	**70,013**	**44,089,834**	**46,278,391**
Out of which: restructured	292,652	82,678	6,636	3,555	17,947,547	**18,333,069**
Total	**142,346,257**	**8,478,633**	**577,548**	**1,101,001**	**44,090,342**	**196,593,781**
Due from banks	**294,297**	**-**	**-**	**-**	**105,463**	**399,760**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.1. Maximum Credit Risk Exposure (continued)

Changes in provision for impairment

31.12.2016	Gross 31.12.2015	Impaired during the year	Cease being impaired during the year	Foreign exchange rate effect	Other Changes	Gross 31.12.2016	Net 31.12.2016
Housing Loans	38,324,302	3,715,858	(866,533)	607,843	(2,517,671)	39,263,798	38,238,071
Cash Loans	17,297,093	12,489,635	(7,559,188)	7,943	(2,343,148)	19,892,335	18,910,155
Agricultural Loans	5,672,185	3,616,561	(1,818,958)	64,752	(985,188)	6,549,353	6,116,715
Other Loans	6,407,131	1,018,658	(1,373,918)	3,404	(152,806)	5,902,469	5,179,786
Micro Businesses	7,153,042	5,544,236	(3,620,560)	77,885	(1,457,399)	7,697,204	6,912,748
Retail	**74,853,753**	**26,384,948**	**(15,239,157)**	**761,827**	**(7,456,212)**	**79,305,158**	**75,357,475**
Large corporate clients	63,123,923	4,230,794	(11,285,694)	748,943	(42,230)	56,775,736	36,934,982
Middle corporate clients	25,147,444	2,384,813	(5,961,302)	303,486	(2,432,602)	19,441,839	17,077,570
Small corporate clients	11,205,994	1,735,841	(4,450,900)	120,347	(93,018)	8,518,264	7,279,146
State owned clients	19,011,630	1,112,715	(6,871,069)	258,199	(3,925,094)	9,586,381	8,958,825
Other	3,251,037	1,787	(395,510)	41,298	2,755,249	5,653,861	4,028,236
Corporate Clients	**121,740,028**	**9,465,950**	**(28,964,475)**	**1,472,273**	**(3,737,695)**	**99,976,081**	**74,278,759**
Total	**196,593,781**	**35,850,898**	**(44,203,632)**	**2,234,100**	**(11,193,907)**	**179,281,239**	**149,636,234**
Due from banks	**399,760**	**-**	**(105,463)**	**-**	**15,578**	**309,874**	**-**

*Other changes relate to orderly settlement of debt during 2016. which caused decrease in credit exposure.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables

In thousand RSD

31.12.2016	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**79,305,158**	**3,947,684**	**5,167,534**	**977,774**	**3,511,877**	**6,52%**	**2,996,972**
Housing Loans	39,263,798	1,025,727	1,992,031	443,673	938,529	5,07%	1,650,185
Cash Loans	19,892,334	982,179	924,303	38,240	846,686	4,65%	149,499
Agricultural Loans	6,549,353	432,638	467,403	39,015	383,758	7,14%	267,251
Other	5,902,469	722,683	662,682	130	650,164	11,23%	17,631
Micro Businesses	7,697,204	784,457	1,121,115	456,716	692,740	14,57%	912,406
Corporate	**100,751,256**	**25,697,321**	**32,480,376**	**25,635,989**	**25,014,126**	**32,24%**	**25,106,244**
Agriculture	6,762,592	286,096	345,824	41,950	223,879	5,11%	342,194
Manufacturing Industry	34,794,713	10,138,902	14,174,435	12,737,641	9,907,593	40,74%	12,748,120
Electric Energy	83,227	41,674	-	-	-	0,00%	-
Construction	3,137,703	1,393,284	1,351,493	1,122,734	1,276,404	43,07%	1,296,338
Wholesale and Retail	28,424,037	4,290,343	5,149,413	3,981,786	4,153,320	18,12%	4,527,842
Service Activities	10,983,232	2,502,551	2,884,345	2,876,445	2,435,674	26,26%	2,240,244
Real Estate Activities	1,716,719	688,574	1,409,119	954,401	683,881	82,08%	1,332,954
Other	14,849,033	6,355,897	7,165,745	3,921,032	6,333,375	48,26%	2,618,552
Total	**180,056,414**	**29,645,005**	**37,647,910**	**26,613,763**	**28,526,003**	**20,91%**	**28,103,216**
Due from banks	**40,911,287**	**309,874**	**309,874**	**-**	**309,874**	**0,76%**	**-**

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables (continued)

In thousand RSD

31.12.2015	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**74,853,753**	**4,054,041**	**5,639,921**	**646,783**	**3,551,316**	**7,53%**	**3,218,821**
Housing Loans	38,324,302	888,843	1,855,829	175,907	800,944	4,84%	1,558,377
Cash Loans	17,297,093	984,660	868,355	21,191	808,220	5,02%	86,189
Agricultural Loans	5,672,185	409,008	468,476	18,943	363,409	8,26%	247,216
Other	6,407,131	721,661	646,710	343	631,257	10,09%	18,956
Micro Businesses	7,153,042	1,049,869	1,800,551	430,399	947,488	25,17%	1,308,083
Corporate	**124,172,819**	**32,229,966**	**41,137,236**	**17,686,286**	**30,680,436**	**33,13%**	**31,060,241**
Agriculture	5,265,631	142,875	408,726	-	120,641	7,76%	324,299
Manufacturing Industry	42,484,186	7,804,853	7,821,625	6,513,072	6,357,455	18,41%	6,635,533
Electric Energy	3,581,804	129	12	-	12	0,00%	-
Construction	3,266,142	706,920	1,417,299	247,809	646,679	43,39%	1,433,650
Wholesale and Retail	29,679,297	4,653,353	6,079,969	1,009,499	4,297,644	20,49%	4,914,681
Service Activities	10,242,259	1,270,914	2,946,890	2,738,471	1,257,165	28,77%	2,493,221
Real Estate Activities	2,038,985	559,444	1,122,121	734,457	553,172	55,03%	967,141
Other	27,614,515	17,091,478	21,340,593	6,442,978	17,447,668	77,28%	14,291,716
Total	**199,026,572**	**36,284,007**	**46,777,157**	**18,333,069**	**34,231,752**	**23,50%**	**34,279,062**
Due from banks	**17,243,760**	**399,760**	**399,760**	**-**	**399,760**	**2,32%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.2. Non-performing receivables (continued)

Changes in non-performing receivables

In thousand RSD

	Gross 31.12.2015	New non-performing receivables	Decrease in non-performing receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2016	Net 31.12.2016
Housing Loans	1,855,829	568,280	(360,711)	25,352	(96,720)	1,992,030	1,053,503
Cash Loans	868,355	174,529	(88,401)	968	(31,148)	924,303	77,617
Agricultural Loans	468,476	70,482	(48,627)	2,579	(25,506)	467,404	83,645
Other Loans	646,710	86,091	(58,300)	162	(11,981)	662,682	12,518
Micro Businesses	1,800,551	125,007	(797,076)	20,003	(27,370)	1,121,115	428,375
Retail	**5,639,921**	**1,024,389**	**(1,353,115)**	**49,064**	**(192,725)**	**5,167,534**	**1,655,658**
Large corporate clients	24,408,453	7,388,272	(8,179,517)	221,903	187,974	24,027,084	4,505,337
Middle corporate clients	6,004,311	978,043	(3,693,111)	53,308	(294,315)	3,048,236	875,179
Small corporate clients	5,056,234	551,665	(3,578,501)	45,039	(208,967)	1,865,471	734,600
State owned clients	3,681,053	1,076,536	(2,752,808)	42,094	(132,873)	1,914,002	1,351,133
Other	1,987,185	-	(380,987)	22,129	(2,744)	1,625,583	-
Corporate Clients	**41,137,236**	**9,994,516**	**(18,584,924)**	**384,473**	**(450,925)**	**32,480,376**	**7,466,249**
Total	**46,777,157**	**11,018,905**	**(19,938,039)**	**433,537**	**(643,650)**	**37,647,910**	**9,121,907**
Due from banks	**399,760**	**-**	**(105,463)**	**-**	**15,578**	**309,874**	**-**

**Other changes relate to partially increase/decrease of the amount of receivables from one loan during the year*

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.3. Non problematic receivables

In thousand RSD

	31.12.2016					31.12.2015				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals
Housing Loans	36,697,560	568,687	5,520	37,271,767	36,280,871	36,117,378	340,010	11,085	36,468,473	34,986,221
Cash Loans	18,905,257	61,140	1,635	18,968,032	13,486,892	16,340,028	87,416	1,294	16,428,738	8,872,077
Agricultural Loans	6,054,901	24,463	2,586	6,081,950	5,549,102	5,176,534	27,175	-	5,203,709	4,750,326
Other Loans	5,194,917	40,824	4,046	5,239,787	160,510	5,725,121	33,819	1,480	5,760,420	207,293
Micro Businesses	6,095,662	288,095	192,331	6,576,088	7,684,003	4,912,072	376,055	64,364	5,352,491	6,412,908
Retail	**72,948,297**	**983,209**	**206,119**	**74,137,624**	**63,161,378**	**68,271,133**	**864,475**	**78,223**	**69,213,831**	**55,228,825**
Large corporate clients	28,720,712	4,027,940	-	32,748,652	40,339,321	28,244,306	10,471,255	-	38,715,561	47,239,513
Middle corporate clients	16,034,901	358,702	-	16,393,603	22,435,244	17,169,861	1,946,232	27,084	19,143,177	24,247,260
Small corporate clients	6,190,681	431,993	30,119	6,652,793	9,185,646	5,495,680	114,321	539,761	6,149,762	8,259,782
State owned clients	6,638,454	500,825	1,308,275	8,447,554	6,226,630	5,163,952	10,506,909	2,092,951	17,763,812	12,041,513
Other	216	4,027,641	421	4,028,278	4,872,186	1,613	1,261,248	411	1,263,272	1,811,054
Corporate Clients	**57,584,964**	**9,347,101**	**1,338,815**	**68,270,880**	**83,059,027**	**56,075,412**	**24,299,965**	**2,660,207**	**83,035,584**	**93,599,122**
Total	**130,533,261**	**10,330,310**	**1,544,934**	**142,408,504**	**146,220,405**	**124,346,545**	**25,164,440**	**2,738,430**	**152,249,415**	**148,827,947**
Due from banks	**40,601,413**	**-**	**-**	**40,601,413**	**223,425**	**16,844,000**	**-**	**-**	**16,844,000**	**53,267**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables

In thousand RSD

31.12.2016

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**79,305,159**	**3,947,684**	**1,287,124**	**977,774**	**407,116**	**1,62%**	**1,197,996**
Housing Loans	39,263,799	1,025,726	738,398	443,672	193,064	1,88%	686,215
Cash Loans	19,892,334	982,179	47,301	38,240	23,734	0,24%	28,450
Agricultural Loans	6,549,353	432,638	39,016	39,016	22,796	0,60%	35,917
Other	5,902,469	722,684	130	130	130	0,00%	130
Micro Businesses	7,697,204	784,457	462,279	456,716	167,392	6,01%	447,284
Corporate Clients	**100,751,256**	**25,697,321**	**27,538,792**	**25,635,989**	**20,608,449**	**27,33%**	**23,084,897**
Agriculture	6,762,592	286,096	41,950	41,950	553	0,62%	41,950
Manufacturing Industry	34,794,713	10,138,901	12,891,752	12,737,641	9,552,934	37,05%	11,559,544
Electric Energy	83,227	41,674	-	-	-	0,00%	-
Construction	3,137,703	1,393,284	1,122,734	1,122,734	1,072,398	35,78%	1,122,734
Wholesale and Retail	28,424,037	4,290,343	5,629,395	3,981,786	3,286,892	19,81%	5,589,845
Service Activities	10,983,232	2,502,551	2,977,528	2,876,445	2,427,775	27,11%	2,337,301
Real Estate Activities	1,716,719	688,574	954,401	954,401	644,009	55,59%	889,803
Other	14,849,032	6,355,898	3,921,032	3,921,032	3,623,888	26,41%	1,543,720
Total	**180,056,414**	**29,645,005**	**28,825,916**	**26,613,763**	**21,015,565**	**16,01%**	**24,282,893**
Due from banks	**40,911,287**	**309,874**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

In thousand RSD

31.12.2015

	Gross exposure	Impairment of gross exposure	Resturctured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**74,853,753**	**4,054,041**	**903,281**	**646,783**	**183,755**	**1,21%**	**822,698**
Housing Loans	38,324,302	888,843	402,533	175,908	89,711	1,05%	365,485
Cash Loans	17,297,093	984,660	40,604	21,191	17,275	0,23%	20,264
Agricultural Loans	5,672,185	409,008	28,824	18,943	3,550	0,51%	28,347
Other	6,407,131	721,661	343	343	343	0,01%	343
Micro Businesses	7,153,042	1,049,869	430,977	430,398	72,876	6,03%	408,259
Corporate Clients	**124,172,819**	**32,229,966**	**26,618,137**	**17,686,286**	**13,276,122**	**21,44%**	**23,505,308**
Agriculture	5,265,631	142,875	-	-	-	0,00%	-
Manufacturing Industry	42,484,186	7,804,853	13,649,514	6,513,072	6,645,530	32,13%	12,587,599
Electric Energy	3,581,804	129	-	-	-	0,00%	-
Construction	3,266,142	706,920	247,809	247,809	199,036	7,59%	247,809
Wholesale and Retail	29,679,297	4,653,353	2,804,908	1,009,499	235,050	9,45%	2,782,776
Service Activities	10,242,259	1,270,914	2,738,471	2,738,471	1,051,677	26,74%	2,452,008
Real Estate Activities	2,038,985	559,444	734,457	734,457	366,723	36,02%	734,457
Other	27,614,515	17,091,478	6,442,978	6,442,978	4,778,106	23,33%	4,700,659
Total	**199,026,572**	**36,284,007**	**27,521,418**	**18,333,069**	**13,459,877**	**13,83%**	**24,328,006**
Due from banks	**17,243,760**	**399,760**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

Changes in non-performing receivables

In thousand RSD

	Gross 31.12.2015	**New restructured receivables**	**Decrease in restructured receivables**	**Foreign exchange rate effect**	**Other changes***	**Gross 31.12.2016**	**Net 31.12.2016**
Housing Loans	402,532	404,140	(57,049)	7,796	(19,021)	738,399	545,334
Cash Loans	40,604	15,252	(3,931)	329	(4,952)	47,301	23,567
Agricultural Loans	28,824	17,602	(4,936)	324	(2,798)	39,016	16,220
Other Loans	343	-	(213)	3	(3)	130	-
Micro Businesses	430,977	109,938	(80,072)	6,014	(4,578)	462,279	294,888
Retail	**903,280**	**546,932**	**(146,201)**	**14,466**	**(31,352)**	**1,287,125**	**880,009**
Large corporate clients	22,101,853	4,685,250	(2,256,377)	271,206	38,383	24,840,314	5,948,685
Middle corporate clients	1,505,441	805,395	(610,452)	18,794	(26,819)	1,692,358	618,801
Small corporate clients	367,568	462,454	(144,634)	2,356	(164,027)	523,718	270,358
State owned clients	2,643,276	276,218	(2,452,568)	36,217	(20,742)	482,401	92,498
Other	-	-	-	-	-	-	-
Corporate Clients	**26,618,138**	**6,229,317**	**(5,464,031)**	**328,573**	**(173,205)**	**27,538,791**	**6,930,342**
Total	**27,521,418**	**6,776,249**	**(5,610,232)**	**343,039**	**(204,557)**	**28,825,916**	**7,810,351**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

**Other changes relate to partially increase/decrease of the amount of restructured receivables from one loan during the year*

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.4. Restructured receivables (continued)

Measures implemented by the Bank during the restructuring of loans

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

The measures most often taken by the Bank during the restructuring of loans are:

- Extension of the maturity date, which is usually accompanied also by adjusting the interest rate that is adjusted to the financial situation of clients,
- The introduction of a grace period or moratorium on settlement of liabilities within a specified period,
- Capitalization of maturity, if there are outstanding liabilities due to date, those are in the process of restructuring returned to claims not due, i.e. new initial balance of claim is formed.
- Refinancing of receivables - in justified cases it is possible to carry out refinancing of receivables from other creditors in order to improve the Bank's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the Bank has not implemented a partial write-offs during the restructuring, but in the coming period, the Bank will carefully consider the justification of such measure in the restructuring process if it is reasonable, in order to reduce the debtor's obligations to the real level that can be repaid from cash flow, which will certainly be analysed comparatively, and collateral position of the Bank with the screening of collection options, to enable the Bank to collect its claim to the maximum possible amount.
- converting debt into equity - also not done in the past, but in the coming period will be done by an individual assessment of the justification of implementing this measure, if it is the only possibility of conducting the restructuring of the Bank, i.e. the collection of receivables.

Those measures can be implemented individually or by implementing more measures depending on each individual restructuring process.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.5. Concentration Risk

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

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

In thousand RSD

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.5. Concentration Risk (continued)

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

In thousand RSD

31.12.2015	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**69,213,833**	**-**	**-**	**-**	**-**	**5,639,922**	**-**	**-**	**-**	**-**
Housing Loans	36,468,473	-	-	-	-	1,855,830	-	-	-	-
Cash Loans	16,428,738	-	-	-	-	868,355	-	-	-	-
Agricultural Loans	5,203,709	-	-	-	-	468,476	-	-	-	-
Other	5,760,421	-	-	-	-	646,710	-	-	-	-
Micro Businesses	5,352,492	-	-	-	-	1,800,551	-	-	-	-
Corporate Clients	**81,786,283**	**1,249,299**	**-**	**-**	**-**	**41,054,988**	**-**	**-**	**-**	**82,247**
Agriculture	4,856,905	-	-	-	-	408,726	-	-	-	-
Manufacturing Industry	34,662,561	-	-	-	-	7,821,625	-	-	-	-
Electric Energy	3,581,791	-	-	-	-	12	-	-	-	-
Construction	1,848,843	-	-	-	-	1,417,299	-	-	-	-
Wholesale and Retail	23,599,328	-	-	-	-	6,079,969	-	-	-	-
Service Activities	7,295,369	-	-	-	-	2,946,890	-	-	-	-
Real Estate Activities	916,863	-	-	-	-	1,122,121	-	-	-	-
Other	5,024,623	1,249,299	-	-	-	21,258,346	-	-	-	82,247
Total	**151,000,116**	**1,249,299**	**-**	**-**	**-**	**46,694,910**	**-**	**-**	**-**	**82,247**
Due from banks	**2,841,536**	**8,705**	**602,028**	**9,403,690**	**3,988,041**	**105,463**	**-**	**-**	**-**	**294,297**

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.6. Financial Assets

In thousand RSD

	31.12.2016		31.12.2015	
	Gross	Net	Gross	Net
Financial Assets:				
- at fair value through profit and loss, held for trading	242,920	242,920	851,056	851,056
- available for sale	136,205,563	136,123,853	128,756,778	128,756,408
- held to maturity	84,169	-	97,669	-
Total	**136,532,652**	**136,366,773**	**129,705,503**	**129,607,464**

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

Available-for-sale financial assets represent financial instruments which are intended to be held over an indefinite time period and which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. They mostly comprise of Treasury bills and bonds issued by the Republic of Serbia, 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) and on internally developed valuation models (mark to model) that used in instances when for certain financial instruments independent sources of market information are not available, and are based on the maturity of the security and the risk-free interest rate level. At the end of 2016, the Bank has improved its internal methodology for valuation of securities (mark to model) available for sale.

Improvement of the methodology consists in its simplification in terms of discount factors and changes in the discount curve.

Financial assets held to maturity entirely relate to discounted bills of exchange, which were completely impaired as of 31 December 2015.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals)

In next tables, the value of collateral is shown at the fair value of the collateral, so that the value of the collateral is shown only up to the amount of gross loans (in case the value of the collateral exceeds the loan amount). When the value of the collateral is lower than the value of gross placements shall disclose the value of the collateral.

The value of collateral and guarantees received in order to mitigate exposure to credit risk arising from loans to customers is shown in the following table:

Loans and receivables from clients covered with collaterals

In thousand RSD

31.12.2016	Impaired receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
By type of loan					
Housing Loans	36,574,200	-	-	1,356,856	**37,931,056**
Cash Loans	111,094	394,843	-	13,130,454	**13,636,391**
Agricultural Loans	3,288,779	4,251	45,025	2,478,299	**5,816,354**
Other	10,918	79,205	-	88,018	**178,141**
Micro Businesses	2,279,301	646,958	3,477	5,666,673	**8,596,407**
Total Retail	**42,264,292**	**1,125,256**	**48,502**	**22,720,300**	**66,158,350**
Large Corporate Clients	35,580,913	77,499	2,327,661	22,133,666	**60,119,739**
Middle Corporate Clients	11,146,400	633,427	195,042	12,869,558	**24,844,427**
Small Corporate Clients	3,982,500	487,924	10,050	6,338,013	**10,818,486**
State	529,607	18,859	2,274,486	4,685,422	**7,508,373**
Other	3,298	-	-	4,870,947	**4,874,246**
Corporate Clients	**51,242,718**	**1,217,709**	**4,807,238**	**50,897,606**	**108,165,271**
By Receivables Category					
Non-problematic receivables	**75,589,848**	**2,336,165**	**2,013,691**	**66,280,701**	**146,220,405**
Of which: restructured	2,176,611	5,563	-	5,993	2,188,167
Problematic receivables	**17,917,162**	**6,800**	**2,842,049**	**7,337,205**	**28,103,216**
Of which: restructured	14,157,312	4,337	1,892,942	6,040,136	22,094,726
Non-problematic receivables	**93,507,010**	**2,342,965**	**4,855,740**	**73,617,906**	**174,323,621**
Due from banks	**-**	**-**	**223,425**	**-**	**223,425**

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

Impaired receivables as at 31 December 2016 relate to loans and receivables of the Republic of Serbia, which is not covered by collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (collaterals)

Loans and receivables from clients covered with collaterals

In thousand RSD

31.12.2015	Impaired receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
By type of loan					
Housing Loans	35,134,055	12,377	-	1,398,167	**36,544,599**
Cash Loans	84,645	309,672	-	8,563,949	**8,958,266**
Agricultural Loans	3,206,414	18,503	59,870	1,712,754	**4,997,541**
Other	13,007	51,640	-	161,602	**226,249**
Micro Businesses	2,495,833	536,818	-	4,688,339	**7,720,990**
Total Retail	**40,933,954**	**929,010**	**59,870**	**16,524,811**	**58,447,645**
Large Corporate Clients	40,520,986	75,407	2,375,203	26,330,220	**69,301,816**
Middle Corporate Clients	12,920,787	1,000,651	199,585	14,660,636	**28,781,660**
Small Corporate Clients	5,449,448	250,335	10,408	5,386,296	**11,096,487**
State	1,987,767	4,059	5,200,602	6,333,197	**13,525,624**
Other	130,334	1,788	-	1,821,655	**1,953,777**
Corporate Clients	**61,009,322**	**1,332,240**	**7,785,798**	**54,532,004**	**124,659,364**
By Receivables Category					
Non-problematic receivables	**82,328,417**	**2,236,793**	**6,552,375**	**57,710,364**	**148,827,948**
Of which: restructured	8,627,405	126	-	92,509	8,720,040
Problematic receivables	**19,614,859**	**24,457**	**1,293,293**	**13,346,452**	**34,279,061**
Of which: restructured	9,217,734	11,438	-	6,378,793	15,607,966
Non-problematic receivables	**101,943,276**	**2,261,250**	**7,845,668**	**71,056,815**	**183,107,009**
Due from banks	**-**	**53,267**	**-**	**-**	**53,267**

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

Impaired receivables as at 31 December 2015 relate to loans and receivables of the Republic of Serbia, which is not covered by collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

4.1.7. Credit Risk Hedges (Collaterals) (continued)

Loans and receivables from clients covered with collaterals (continued)

The ratio of the loan amount and the assessed value of the property held as collateral is monitored by the range of Loan To Value Ratio - LTV ratio.

Overview of loans and receivables secured by collateral according to range of LTV ratio

In thousand RSD

	31. December 2016.	31. December 2015.
Less than 50%	28,108,827	27,427,847
50% - 70%	20,622,962	21,223,457
71% - 100%	22,710,195	21,908,453
101% - 150%	8,938,248	10,720,320
Greater than 150%	24,810,723	35,543,409
Total exposure	**105,190,955**	**116,823,486**
Average LTV	**66,60%**	**53,58%**

4.1.8. Tangible Assets Acquired in Lieu of Debt Collection

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

In thousand RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2015.	81,622	2,608,385	107,018	160,021	2,957,046
Acquisition	-	402,372	4,786	6,323	413,481
Sale	-	(363,998)	(180)	(3,455)	(367,633)
31.12.2016.	81,622	2,646,759	111,624	162,889	3,002,894
Impairment Allowances	23,208	897,867	72,424	25,219	1,018,719
Net	58,414	1,748,892	39,200	137,670	1,984,175

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

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.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	2016.	2015.	2016.	2015.
As at December 31	2.86	2.73	2.54	2.51
Average for the period	3.00	3.11	2.59	2.82
Maximum for the period	3.62	3.97	3.16	3.62
Minimum for the period	1.88	1.85	1.67	1.65

During 2016 the Bank's liquidity ratio and cash liquidity ratio were both well above the prescribed limits.

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	2016.	2015.
GAP up to 1 month / Total assets	Max (10%)	7.00%	5.54%
Cumulative GAP up to 3 months / Total assets	Max (20%)	10.02%	6.84%

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

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

In thousand RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	55,153,209	-	-	-	-	55,153,209
Loans and receivables due from other banks and other financial institutions	36,219,153	3,388,184	-	994,076	-	40,601,413
Loans and receivables due from customers	9,113,791	10,092,590	36,823,101	57,483,448	36,898,479	150,411,409
Financial assets (securities)	4,850,950	13,068,035	47,072,509	69,558,081	1,817,198	136,366,773
Other assets	2,067,974	-	-	1,124,843	-	3,192,817
Total	**107,405,077**	**26,548,809**	**83,895,610**	**129,160,448**	**38,715,677**	**385,725,621**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,425,106	1,086,006	1,532,903	2,767,720	23,227	7,834,962
Deposits and other liabilities due to customers	216,058,611	16,265,810	63,184,786	25,278,902	1,833,251	322,621,360
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390
Other liabilities	4,556,539	-	1,047,493	-	-	5,604,032
	223,040,256	**17,351,816**	**71,943,572**	**28,046,622**	**1.856.478**	**342,238,744**
Net liquidity gap						
As of December 31, 2016	**(115,635,179)**	**9,196,993**	**11,952,038**	**101,113,826**	**36,859,199**	**43,486,877**
As of December 31, 2015	**(71,477,632)**	**(2,982,662)**	**(8,306,378)**	**96,443,642**	**33,765,604**	**47,439,769**

Maturity structure of monetary assets and monetary liabilities as of December 31, 2015

In thousand RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,523,715	-	-	-	-	63,523,715
Loans and receivables due from other 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	71,671,154	2,596,561	129,607,464
Other assets	2,168,378	-	-	393,589	-	2,561,967
Total	**101,040,246**	**19,767,949**	**76,817,404**	**139,986,206**	**37,667,906**	**375,279,710**
Deposits and other liabilities due to banks, other financial institutions and 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
	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)**	**96,443,642**	**33,762,800**	**47,439,769**
As of December 31, 2014	**(3,769,819)**	**(6,065,212)**	**(17,450,353)**	**41,594,475**	**38,237,797**	**52,546,888**

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.

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

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

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

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

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

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

In thousand RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	55,153,209	-	-	-	-	55,153,209
Loans and receivables due from other banks and other financial institutions	36,237,653	3,390,001	7,248	1,002,018	-	40,636,920
Loans and receivables due from customers	9,845,162	11,486,494	41,909,912	70,955,160	49,915,395	184,112,123
Financial assets (securities)	4,945,855	13,525,370	48,495,096	71,540,868	1,990,445	140,497,634
Other assets	2,067,974	-	-	1,124,843	-	3,192,817
Total	**108,249,853**	**28,401,865**	**90,412,256**	**144,622,889**	**51,905,840**	**423,592,703**
	2,427,393	1,127,564	1,589,883	2,831,253	23,445	7,999,538
Deposits and other liabilities due to banks, other financial institutions and central bank	216,507,660	16,449,411	64,273,297	26,275,487	2,295,137	325,800,992
Deposits and other liabilities due to customers	-	-	6,463,613	-	-	6,463,613
Subordinated liabilities	4,556,539	-	1,047,493	-	-	5,604,032
Total	**223,491,592**	**17,576,975**	**73,374,286**	**29,106,740**	**2,318,582**	**345,868,175**
Net liquidity gap						
As of December 31, 2016	**(115,241,739)**	**10,824,890**	**17,037,970**	**115,516,149**	**49,587,258**	**77,724,528**
As of December 31, 2015	**(71,327,156)**	**(802,003)**	**(2,473,971)**	**116,292,731**	**43,632,913**	**85,322,515**

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

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

In thousand RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,523,715	-	-	-	-	63,523,715
Loans and receivables due from other 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	75,717,394	2,749,372	137,348,884
Other assets	2,168,378	-	-	393,589	-	2,561,967
Total	**102,119,684**	**22,348,293**	**85,235,499**	**163,129,658**	**47,834,008**	**420,667,143**
	2,716,226	1,191,392	4,250,655	8,386,021	1,822,993	18,367,287
Deposits and other liabilities due to banks, other financial institutions and central bank	167,031,011	21,958,904	82,561,659	31,786,929	2,378,102	305,716,605
Deposits and other liabilities due to customers	-	-	-	6,663,977	-	6,663,977
Subordinated 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, 2016	**(71,327,156)**	**(802,003)**	**(2,473,971)**	**116,292,731**	**43,632,913**	**85,322,515**
As of December 31, 2015	**3,644,125**	**(3,836,777)**	**(11,891,739)**	**55,623,843**	**52,081,954**	**95,621,406**

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, currency risk for all business operations and price risk for all items in the trading book.

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

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

4. RISK MANAGEMENT (continued)

4.3. Market Risk (continued)

4.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.3. Market Risk (continued)

4.3.1. Interest Risk (continued)

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

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

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

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

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

	Limits	2016.	2015.
Relative GAP	Max 15%	1.33%	1.38%
Mismatch ratio	0.75 – 1.25	1.02	1.02

During 2016 the Bank's interest rate risk ratios were within internally prescribed limits.

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

Compliance with internally defined limits of economic value of equity:

	2016.	2015.
As at December 31	4.61%	5.23%
Average for the year	4.58%	8.68%
Maximum for the year	5.03%	10.70%
Minimum for the year	3.96%	5.23%
Limit	**20%**	**20%**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

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, 2016:

In thousand RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	20,295,058	-	-	-	-	20,295,058	34,858,151	55,153,209
Loans and receivables due from banks and other financial institutions	35,907,789	3,388,185	-	193,259	13,333	39,502,566	1,098,848	40,601,414
Loans and receivables due from customers	56,317,055	12,953,807	36,168,045	31,319,055	13,560,096	150,318,058	93,351	150,411,409
Financial assets (securities)	12,387,360	11,818,310	40,638,128	69,418,074	1,861,982	136,123,854	242919	136,366,773
Other assets	-	-	-	-	-	-	3,192,817	3,192,817
Total	**124,907,262**	**28,160,302**	**76,806,173**	**100,930,388**	**15,435,411**	**346,239,536**	**39,486,086**	**385,725,622**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,481,677	4,048,224	1,265,781	16,051	23,227	7,834,962	-	7,834,962
Deposits and other liabilities due to customers	219,997,555	18,179,102	60,479,981	21,300,253	1,244,250	321,201,141	1,420,219	322,621,360
Subordinated liabilities	-	-	6,178,390	-	-	6,178,390	-	6,178,390
Other liabilities	-	-	-	-	-	-	5,604,032	5,604,032
Total	**222,479,232**	**22,227,326**	**67,924,152**	**21,316,304**	**1,267,477**	**335,214,493**	**7,024,251**	**342,238,744**
Interest rate GAP								
-At December 31, 2016	**(97,571,970)**	**5,932,976**	**8,882,021**	**79,614,084**	**14,167,934**	**11,025,043**	**32,461,835**	**43,486,878**
-At December 31, 2015	**(55,855,531)**	**18,627,271**	**(24,339,430)**	**57,696,895**	**13,686,001**	**9,815,107**	**37,624,664**	**47,439,771**

4. RISK MANAGEMENT (continued)

4.3. Market Risk (continued)

4.3.1. Interest Risk (continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2015:

In thousand RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	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	63,933,906	2,599,364	127,938,748	1,669,216	**129,607,464**
Other assets	-	-	-	-	-	-	2,561,967	**2,561,967**
Total	**122,507,781**	**42,893,916**	**65,726,420**	84,514,257	**14,849,936**	330,492,310	44,787,902	**375,280,211**
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**	**26,816,662**	**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)**	**57,696,895**	**13,686,001**	**9,815,607**	**37,624,664**	**47,440,270**

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.

The Risk of Changes in Interest Rates

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

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

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

In thousand RSD

	Parallel increases by 100 b.p.	Parallel decreases by 100 b.p.
2016.		
As at December 31	543,200	(292,709)
Average for the year	417,955	(417,955
Maximum for the year	543,200	(543,200)
Minimum for the year	292,709	(292,709)
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)

4. RISK MANAGEMENT (continued)

4.3. Market Risk (continued)

4.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	2016.	2015.
Total currency risk balance	1,366,855	4,072,802
Currency risk ratio	2.96%	10.60%
Legally-defined limit	**20%**	**20%**

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, 2016

In thousand RSD

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

4. RISK MANAGEMENT (continued)

4.3. Market Risk (continued)

4.3.2. Currency Risk (continued)

Breakdown of Monetary Assets and Monetary Liabilities per currencies as of December 31, 2015

In thousand RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause y 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)	76,833,947	7,478,087	1,665,663	343,861	**86,321,558**	446,242	-	-	42,839,664	**129,607,464**
Other assets	352,502	90,285	592	34	**443,413**	14	-	-	2,118,540	**2,561,967**
Total	**128,546,899**	**10,972,013**	**5,130,028**	**2,125,584**	**146,774,524**	**107,240,389**	**129**	**5,393,075**	**115,954,038**	**375,297,710**
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**
Deposits and other liabilities due to banks, other financial institutions and the central bank	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 Currency Position, 31 December 2015	**(109,418,896)**	**696,611**	**(5,304,131)**	**32,015**	**(114,0855,221)**	**105,274,246**	**(5,715)**	**5,393,075**	**48.775.095**	**45,856,745**

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 2016 and 2015 is presented in the table below:

In thousand RSD

	As of December 31	Average	Maximum	Minimum
2016				
Currency risk	15,565	28,025	78,636	9,782
2015				
Currency risk	52,582	32,312	179,472	5,924

4.4. Operational Risk

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

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

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

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

4. RISK MANAGEMENT (continued)

4.4. Operational Risk (continued)

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

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

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

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

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

4.5. The Bank's Investment Risks

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

4. RISK MANAGEMENT (Continued)

4.6. Exposure Risk

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

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

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

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

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

4.7. Country Risk

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.8. Fair Value of Financial Assets and Liabilities

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

In thousand RSD

	31.12.2016					31.12.2015	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables due from customers	150,411,409	147,655,809	-	-	147,655,809	162,742,565	161,561,904
Financial Liabilities							
Deposits and other liabilities due to customers	322,621,360	322,502,251			322,502,251	300,005,903	299,849,674

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.

4. RISK MANAGEMENT (continued)

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

4.8.2. Financial instruments measured at fair value

In thousand RSD

31.12.2016	Level 1	Level 2	Level 3	Total assets / liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	242,920	-	-	242,920
Securities available for sale (RSD)	-	43,313,154	-	43,313,154
Securities available for sale (FC)	-	92,379,396	431,303	92,810,699
Total	**242,920**	**135,692,550**	**431,303**	**136,366,773**

31.12.2015	Level 1	Level 2	Level 3	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)	-	42,487,488	-	42,487,488
Securities available for sale (FC)	-	85,816,599	452,691	86,269,290
Total	**851,056**	**128,304,087**	**452,691**	**129,607,834**

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

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

4. RISK MANAGEMENT (Continued)

4.9. Capital Management

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

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

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

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

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

Capital adequacy ratio		**In thousand RSD**
	2016	**2015**
Core capital	44,667,035	40,078,298
Supplementary capital	4,175,529	3,909,144
Deductible items	(2,611,859)	(5,555,355)
Capital	**46,230,705**	**38,432,087**
Credit risk-weighted assets	147,355,392	144,531,657
Operational risk exposure	21,710,322	20,679,815
Foreign currency risk exposure	2,338,631	4,072,901
Capital adequacy ratio (minimum 12%)	**26.97%**	**22.70%**

In the course of 2016 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.

4. RISK MANAGEMENT (continued)

4.9. Capital Management (continued)

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;
    - sum of the minimum capital requirements to the aggregate internal capital requirement.

5. USE OF ESTIMATES

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

Key Sources of Estimation Uncertainty

Provisions for Credit Losses

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

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

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

Determining Fair Values

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

Critical Accounting Judgments in Applying the Bank's Accounting Policies

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

Impairment of Investments in Equity Shares

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

Valuation of Financial Instruments

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

5. USE OF ESTIMATES (Continued)

Critical Accounting Judgments in Applying the Bank's Accounting Policies

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

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

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

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

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

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

6. SEGMENT REPORTING

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

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

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

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

A decisive impact on the result in 2016 had indirect impairment losses which amounted to RSD 14,907,539 thousand (of which the Corporate segment accounted for RSD 11,021,735 thousand and the impairment of capital in the subsidiary banks RSD 2,869,029 thousand).

Net losses on the valuation of fixed assets and investment property, also had a significant impact on the result before indirect operating expenses in 2016, and therefore the Bank for the business year 2016 recorded a loss from other income and expenses in the amount of RSD 654,005 thousand.

When creating segment reports, operating expenses are divided into direct operating expenses (directly controlled by business segments or directly attributable to the business segments) and indirect operating expenses (the amount of these costs is not under the direct control segments or there is not a direct connection to the business segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at the Bank level amounted to RSD 7,385,702 thousand and make up 66.6% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

To the segment of retail banking refer the amount of RSD 5,250,911 thousand of direct costs (71.1% of total direct costs) as a result of large business network and number of employees in the retail sector.

In fiscal 2016, despite a stable level of net interest income and fees, the Bank recorded a negative result before tax in the amount of 8,377,636 thousand RSD as a result of already mentioned high amount of impairment losses.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

6. SEGMENT REPORTING (continued)

Operating segments report for 2016 is provided below:

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

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

6. SEGMENT REPORTING (continued)

Operating segments report for 2015 is provided below:

	Retail banking*	Corporate banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	7,139,614	5,629,550	6,325,418	-	19,094,582
Interest expenses	(2,888,157)	(792,233)	(1,646,110)	-	(5,326,500)
Net interest income	4,251,457	4,837,317	4,,679,308		13,768,082
Net income/expenses from related party transactions	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 allowance	**7,526,570**	**3,184,817**	**7,956,642**	**-**	**18,668,029**
Net gains/losses from impairment allowance	(369,263)	(12,631,988)	(7,275)	-	(13,008,526)
Profit before operating expenses	**7,157,307**	**(9,447,171)**	**7,949,367**	**-**	**5,659,503**
Direct operating expenses	(5,633,246)	(1,717,832)	(294,841)	-	(7,645,919)
Net foreign exchange gains/losses	-	-	(13,439)	-	(13,439)
Net other income and expenses	(153,080)	(872,718)	3,358	-	(1,022,440)
Profit before indirect operating expenses	**1,370,981**	**(12,037,721)**	**7,644,445**	**-**	**(3,022,295)**
Indirect operating expenses**	(1,726,360)	(1,107,322)	(319,908)	-	(3,153,590)
Profit before tax	**(355,379)**	**(13,145,043)**	**7,324,537**	**-**	**(6,175,885)**
Assets per segment					
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	-	-	129,607,464	-	129,607,464
Other	-	-	5,480,888	15,241,242	20,722,130
	70,750,545	**91,992,020**	**215,456,067**	**15,241,242**	**393,439,874**
Liabilities per segment					
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	-	-	-	7,358,646	7,358,646
	221,167,282	**55,719,125**	**46,356,775**	**7,358,646**	**330,601,828**

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

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

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

(i) Assets for which fair value approximates carrying value

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

(ii) Fixed rate financial instruments

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

8. NET INTEREST INCOME

Net interest income includes:

	In thousand RSD	
	Year ended December 31	
	2016.	**2015.**
Loans and receivables due from banks	379,351	162,882
Loans and receivables due from customers	10,430,418	12,769,151
Central bank	475,643	667,426
Investment securities	5,403,663	5,495,123
Total interest income	**16,689,075**	**19,094,582**
Deposits from and liabilities due to banks	266,437	186,963
Deposits from and liabilities due to customers	2,206,177	4,060,560
Borrowings received	753,727	1,078,977
Total interest expenses	**3,226,341**	**5,326,500**
Net interest income	**13,462,734**	**13,768,082**

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

In accordance with the requirements of IAS 8 in the part of the disclosure of the previous year, comparative data presented last year at the position of interest income from investment securities have been adjusted in the amount of RSD 238,273 thousand. The total net operating income and loss before and after tax have been adjusted for the same amount.

9. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	In thousand RSD	
	Year ended December 31,	
	2016.	2015.
Fees and commission income in domestic currency		
Payment transfer operations	3,050,088	2,880,097
Fees on issued loans and guarantees - retail customers	27,006	21,407
Fees on issued loans and guarantees - corporate customers	183,068	205,396
Fees on purchase and sale of foreign currencies	453,082	617,338
Brokerage and custody fees	63,605	78,838
Fees arising from card operations	1,540,404	1,348,534
Credit Bureau processing fees	88,011	88,021
Other banking services	603,584	599,104
	6,008,848	**5,838,735**
Fees and commission income in foreign currencies		
Payment transfer operations	102,541	96,130
Fees on issued loans and guarantees - corporate customers	4,884	2,458
Brokerage and custody fees	9,011	7,353
Fees arising from card operations	127,036	59,233
Other banking services	50	197
	243,522	**165,371**
	6,252,370	**6,004,106**
Fee and commission expenses in domestic currency		
Payment transfer operations	121,816	162,025
Fees arising on purchase and sale of foreign currencies	33,396	66,890
Fees arising from card operations	520,990	334,689
Credit Bureau processing fees	72,978	73,013
Other banking services	149,251	132,337
	898,431	**768,954**
Fee and commission expenses in foreign currencies		
Payment transfer operations	63,302	50,749
Fees arising from card operations	290,972	255,592
Other banking services	182,351	28,864
	536,625	**335,205**
	1,435,056	**1,104,159**
Net fee and commission income	**4,817,314**	**4,899,947**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

10. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	In thousand RSD	
	Year Ended December 31,	
	2016	2015
Gains on the fair value adjustment of securities – bonds	-	2,055
Gains on the fair value adjustment of securities – investment units	2,920	9,640
Gains on the fair value adjustment of securities – shares	-	952
Gains on the sales of securities at fair value through profit and loss	70,138	4,661
	73,058	**17,308**
Losses on the fair value adjustment of securities – shares	-	(52)
Losses on the fair value adjustment of securities – bonds	-	(11,217)
Losses on the fair value adjustment of securities – investment units	-	-
Losses on the sales of securities and other financial assets held for trading	(2,580)	(2,853)
	(2,580)	**(14,122)**
Net gains on the financial assets held for trading	**70,478**	**3,186**

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

Net gains on the financial assets available for sale include:

	Year Ended December 31,	
	2016	2015
Gains on the sale of securities available for sale	69,927	44,155
Losses on the sale of securities available for sale	(865)	(52,819)
Net gains on the financial assets available for sale	**69,062**	**(8,664)**

Gains on the sale of securities available for sale of RSD 69,927 thousand relate to the gains from the sale of old foreign currency savings bonds (2016 series) in the amount of RSD 13,925 thousand, the Republic of Serbia Treasury bills in the amount of RSD 18,490 thousand, the Republic of Serbia bonds in domestic currency in the amount of RSD 4,193 thousand and bonds in foreign currencies RSD 2,603 thousand, as well as foreign banks bonds in the amount of RSD 30,716 thousand.

Losses on securities available for sale in the amount of RSD 865 thousand relate to losses from the sale of bonds of the Republic of Serbia in the amount of RSD 860 thousand and the banks' bonds in the amount of RSD 5 thousand.

12. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	In thousand RSD	
	Year Ended December 31,	
	2016.	2015.
Positive currency clause effects	2,510,561	3,911,977
Positive currency clause effects – value adjustment of securities	13,227	40,516
Foreign exchange gains – value adjustment of securities	13,173	184,665
Positive currency clause effects – retail customers	1,281,370	2,935,203
Foreign exchange gains	2,343,797	1,864,243
	6,162,128	**8,936,604**
Negative currency clause effects	(1,437,016)	(3,403,198)
Negative currency clause effects – value adjustment of securities	(5,290)	(37,868)
Negative currency clause effects – value adjustment of liabilities	(37,809)	(228,029)
Negative currency clause effects – retail customers	(616,606)	(2,041,942)
Foreign exchange losses	(4,074,689)	(3,239,006)
	(6,171,410)	**(8,950,043)**
Net expense	**(9,282)**	**(13,439)**

13. OTHER OPERATING INCOME

a) Other operating income relates to:

	In thousand RSD	
	Year Ended December 31,	
	2016.	2015.
Other income from operations	156,919	165,385
Other income	383,901	295,034
Gains on the valuation of property and equipment	32,415	-
Total	**573,235**	**460,419**

Within the other income from operations, the largest amounts relate to: income arising from lease of properties in the amount of RSD 90,459 thousand, of which RSD 66,534 thousand is income from leasing of properties for business purposes, the income from collection of court costs the amount of RSD 27,928 thousand, refunds of municipal costs in the amount of RSD 19,515 thousand, charged costs of business mobile phones in the amount of RSD 9,028 thousand and collection of subsequent damages from insurance companies in the amount of RSD 6,387 thousand.

During 2016 the Bank received dividends from investments and shares for trading in the amount of RSD 15,712 thousand (2015: RSD 4,927 thousand) and and those form part of the position of other income.

13. OTHER OPERATING INCOME (continued)

Within the other income in 2016, the most significant items are income from:

- The reversal of liabilities in the amount of RSD 127,012 thousand, on the basis of revenue recognition of materially insignificant funds on clients' bank accounts, which on December 31, 2016 fulfilled requirements prescribed by decision of Executive Board,
- The reversal of liabilities on the basis of overpayment in the total amount of RSD 75,845 thousand, out of which about RSD 70,649 thousand relate to the earning based on the taxes paid for contracts and invoices with Visa and MasterCard in 2014 and 2015, for which, according to opinion of Ministry of Finance of Republic of Serbia, there was no obligation to pay,
- Rental income from previous years on the basis of revenue recognition for payments made in 2014 and 2015 by the client Politika Newspapers and Magazines in the amount of RSD 62,480 thousand,
- Gains on the sales of assets acquired in the lieu of debt collection in the amount of RSD 4,320 thousand,
- Gains on sales of property and equipment previously used in business activity on the amount of RSD 506 thousand.

b) Net gains on investments

	In thousand RSD	
	Year Ended December 31,	
	2016.	2015.
Gains on sales of AIK bank Niš shares	5,143	-
Total	**5,143**	**-**

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

Net losses from impairment of financial assets relate to:

	Year Ended December 31,	
	2016	2015
Impairment allowance of loans and receivables	25,447,320	22,921,869
Provisions for off-balance sheet items	522,126	599,089
Reversal of impairment allowance of loans and receivables	(10,372,904)	(9,884,868)
Reversal of provisions for off-balance sheet items	(631,308)	(627,390)
Income from collection of receivables previously written-off	(57,695)	(174)
Total	**14,907,539**	**13,008,526**

Within the expenses on impairment of balance sheet items, the Bank has also recorded impairment of foreclosed assets acquired through collection of receivables in the amount of RSD 427.099 thousand (Note 32), based on the valuation of real estate and equipment by a certified appraiser.

Until the end of January 2017, the Bank did not have material collections of loans and receivables previously impaired that would affect the reversal of impairment allowance in accordance with IAS 10.

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

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

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investment securities (Notes 21 and 22)	Investment in subsidiaries	Other assets (Note 32)	Off-balance sheet liabilities (Note 36)	Total
Balance as of January 1, 2016	**399,760**	**36,284,007**	**98,039**	**-**	**1,808,525**	**540,123**	**39,130,454**
New impairment allowance	-	21,380,889	82.166	2,869,029	1,115,236	522,126	25,969,446
Decrease in impairment allowance	-	(10,186,735)	(941)	-	(185,228)	(631,308)	(11,004,212)
Foreign exchange effects	15,577	453,211	115	-	3,140	-	472,043
Write-offs	(105,463)	(18,912,206)	(13,500)	-	(114,838)	-	(19,146,007)
Other movements	-	625,839*	-	-	(94,147)	-	531,692
Balance as of December 31, 2016	**309,874**	**29,645,005**	**165,879**	**2,869,029**	**2,532,688**	**430,941**	**35,953,416**

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

In 2016, the Bank has reported the increase in net expense on impairment allowances and provisions in total amount RSD 14,965,234 thousand. Income from collection of written-off receivables in the amount of RSD 57,695 thousand mostly relates to clients HI Župa Kruševac, Jugotehnika Novi Sad and Niš Niteks.

Other changes in the accounts of impairment and provisions, amount of RSD 19,146,007 thousand refers to the reduction on the basis of transfer of permanent write-offs to off-balance sheet.

In 2016, the fair value of shares (investments) in subsidiaries was assessed and impairment was recognized as an expense in the amount of RSD 2,869,029 thousand.

Based on the report of appraisers engaged, investments in subsidiaries were impaired as follows: Budva in the amount of RSD 1,269,120 thousand and Banja Luka in the amount of RSD 1,599,909 thousand, totalling to RSD 2,869,029 thousand.

15. STAFF COSTS

Staff costs include:

	Year Ended December 31, 2016	2015
Net salaries	2,703,672	2,491,119
Net benefits	444,472	404,518
Payroll taxes	395,782	364,452
Payroll contributions	800,724	761,840
Considerations paid to seasonal and temporary staff	13,934	11,201
Provisions for retirement benefits - net	64,866	33,856
Other staff costs	74,762	54,604
Total	**4,498,212**	**4,121,590**

16. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2016	2015
Amortization charge – intangible assets (Note 26.2)	203,330	248,615
Depreciation charge – property and equipment (Note 27.2)	409,824	495,442
Depreciation charge – investment property (Note 28.1)	52,871	53,344
Total	**666,025**	**797,401**

17. OTHER EXPENSES

Other expenses include:

	Year Ended December 31, 2014.	2013.
Cost of materials	348,681	434,084
Cost of production services	2,067,603	2,179,222
Non-material costs (without taxes and contributions)	2,690,370	2,442,010
Taxes payable	125,828	134,656
Contributions payable	729,322	693,494
Other costs	25,683	30,910
Other expenses	305,835	964,020
Losses on the valuation of property and equipment, investment property and intangible assets	632,721	43,607
Provisions for litigations	368,501	435,896
Total	**7,294,544**	**7,357,899**

a) Other expenses

Within the other expenses in total amount of RSD 305,835 thousand among other items, following items were recorded:

- Expenses arising from outflows after the lost court dispute with the client Republic of Serbia Ministry of Finance regarding Intereksport in bankruptcy in the amount of RSD 125,567 thousand (Note 34a)
- expenses on the basis of paid invoices to the insurance company for life insurance policies of clients endorsed in favour of Bank in the amount of RSD 85,500 thousand. Policies are used as collateral for retail loans,
- costs arising from the acquisition of foreclosed assets acquired through collection of receivables in the amount of RSD 19,972 thousand.

b) Provision for litigations

Expenses related to provisions for litigation in the total amount of RSD 368,501 thousand (Note 34) relate to:

- The increase in expenditure for new legal claims - new claims (thirty individual cases) during 2016, of which only on the basis of the complaint of one person, for a unjust enrichment and retention of net dividends, provision was made in the amount of RSD 163, 756 thousand,
- Increased expenditure on active cases from previous years, out of which amount of RSD 24,739 thousand relates to the increase in the provision for the dispute with the Agency for Privatization based on the activation of the guarantee for good performance (from 14 January 2005 on behalf of Vektra M d.o.o., Belgrade), and an expense of RSD 36,221 thousand to the increase in provisions for litigation with Intereksport ad, Beograd (in liquidation) on the basis of reducing the present value of the obligation, on the basis of: the growth rate of the RSD against the USD as well as the accrued interest for the previous year at the statutory interest rate.

18. INCOME TAXES

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

	In thousand RSD Year Ended December 31, 2016	2015
Deferred income tax benefits	314,453	114,554
Deferred income tax expenses	-	(27)
Total	**314,453**	**114,527**

In 2016 and 2015 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:

	2016	2016	2015	2015
Profit for the year before taxes		**(8,377,636)**		**(6,175,885)**
Tax calculated using the local income tax rate	-15%	(1,256,645)	-15.00%	(926,383)
Expenses not recognized for tax purposes	7.82%	655,221	22.77%	1,406,244
Tax effects of the net capital losses /gains	-0.07%	(6,169)	-0.09%	(5,773)
Tax effects of income reconciliation	-0.12%	(9,686)	-0.06%	(3,749)
Tax credit received and used in the current year	0.07%	6,169	0.09%	5,773
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-10.11%	(846.851)	-12.54%	(774,755)
Tax effect adjustments (used and new ones)	-3.75%	(314.453)	-1.85%	(114,527)
Tax effects stated within the income statement		**314,453**		**114,527**

Expenses not recognized for tax purposes totaling RSD 655,221 thousand, mostly relate to the effects of increased impairment allowance in the amount of RSD 589,327 thousand (15% of RSD 3,928,849 thousand).

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

	Year Ended December 31, 2016	2015
Balance as at January 1	(329,258)	(150,407)
Occurrence and reversal of temporary differences	305,666	(178,851)
Balance as at December 31	**(23,592)**	**(329,258)**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

18. INCOME TAXES (continued)

18.4 Current tax assets:

	31. December 2016.	31. December 2015.
	In thousand RSD	
Current tax assets (paying a monthly installment income tax for 2016 according to the Income Tax law)	-	37,017

During 2016, the Bank did not pay income taxes, as it reported tax loss in the 2015.

Overpayment from past periods was used in the compensation when paying Value Added Tax. The tax funds were used up by the end of 2016 in its entirety.

18.5 Deferred tax assets and liabilities

18.5.1. Deferred tax assets and liabiltiies relate to:

In thousand RSD

	2016.			2015.		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	77,473	-	77,473	-	(30,336)	(30,336)
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	899	(566,448)	(565,549)	40,225	(511,754)	(471,529)
Long-term provisions for retirement benefits	41,978	-	41,978	36,180	-	36,180
Impairment of assets	284,297	-	284,297	136,427	-	136,427
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period Provisions for litigations	1,134	-	1,134	-	-	-
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	137,075	-	137,075	-	-	-
Total	**542,856**	**(566,448)**	**(23,592)**	**212,832**	**(542,090)**	**(329,258)**

Brought forward tax losses that have not been recognized in the books and based on which current tax assets have not been generated amount to RSD 20,492,211 thousand and they relate to accumulated tax losses realized in 2014, 2015 and 2016.

Deferred tax assets are not recognized also on tax credits for investments in fixed assets in the amount of RSD 15,692 thousand neigher on tax credits for inter-company dividends in the amount of RSD 13,154 thousand.

18. INCOME TAXES (continued)

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

In thousand RSD

Type of tax credit	Year	Amount as at 31.12.2015	Amount as at 31.12.2016	Expiration date for use
	2014	388,385	388,385	2019
	2015	10,384,084	10,384,084	2020
Tax losses carried forward	2016	-	9,719,742	2021
Total tax losses carried forward			**20,492,211**	
Impact of tax losses on future income tax (20,492,210 * 15%)			3,073,832	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	15,692	15,692	2023
Tax credit on the basis of intercompany dividends	2014	19,323	13,154	2019
Total tax credits for future income tax liabilities			**3,102,678**	

18.5.3 Movements in temporary difference durin 2016 and 2015 are shown as follows:

In thousand RSD

2016	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	(30,336)	104,920	(3,073)	5,962	77,473
Securities	(471,529)	-	(94,020)		(565,549)
Long term provisions for employee benefits	36,180	5,254	544		41,978
Impairment of assets	136,427	147,870			284,297
Assets based on the payment of other employee liabilities		1,134			1,134
Provisions for legal disputes		55,275		81,800	137,075
Total	**(329,258)**	**314,453**	**(96,549)**	**87,762**	**(23,592)**

2015	As at 1 January	Through P&L	Through OCI	As at 31 December
Property, plant and equipment	(64,287)	34,022	(71)	(30,336)
Securities	(173,039)	-	(298,490)	(471,529)
Long term provisions for employee benefits	26,750	4,247	5,183	36,180
Impairment of assets	60,142	76,285	-	136,427
Assets based on calculation of public duties	27	(27)	-	-
Total	**(150,407)**	**114,527**	**(293,378)**	**(329,258)**

18.6 Tax effects relating to Other comprehensive income

In thousand RSD

	2016			2015		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities available for sale	364,619	(54,693)	309,926	1,987,947	(298,105)	1,689,842
Net decrease due to actuarial losses	(3,626)	544	(3,082)	(34,552)	5,183	(29,369)
Valuation of property	58,580	(3,073)	55,507	(234)	(71)	(305)
Decrease due to fair value adjustments of equity investments and securities available for sale	262,184	(39,327)	222,857	2,568	(385)	2,183
Total	**681,757**	**(96,549)**	**585,208**	**1,955,729**	**(293,378)**	**1,662,351**

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

		In thousand RSD
	December 31, 2016	**December 31, 2015**
In RSD		
Cash on hand	3,325,905	2,907,703
Gyro account	20,295,034	20,884,697
Interest on obligatory RSD reserves	-	5,000,000
Other RSD cash funds	100	100
	23,621,039	**28,792,500**
In foreign currencies		
Cash on hand	3,092,751	3,972,283
Foreign currency obligatory reserves	28,439,396	30,752,857
Other cash funds	23	6,075
	31,532,170	**34,731,215**
Total	**55,153,209**	**63,523,715**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	8,231,797	8,456,806
Foreign currency obligatory reserves	(28,439,396)	(30,752,857)
Deposited surplus liquid assets	-	(5,000,000)
	(20,207,599)	**(27,296,051)**
Cash and cash equivalents reported in statement of cash flows	**34,945,610**	**36,227,664**

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

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0.0% to 5.00%, depending on the maturity of liabilities and their sources, whereby RSD reserve is comprised of: obligatory RSD reserves, 38.00% of RSD equivalent of obligatory reserves in EUR to deposits up to 730 days, and 30.00% of RSD equivalent of obligatory reserves in EUR to deposits over 730 days (Official gazette of RS, no. 135/2014).

The National Bank of Serbia pays interest on these RSD reserves in the amount of 1.75% per annum.

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.

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

Persuant to the Decision on Amendments to the Decision on Obligatory Reserves held with NBS dated as of December 11, 2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied (previously 22%)
- for foreign currency deposits placed for over 730 days the rate of 13% was applied (previously 15%)
- for RSD deposits indexed with currency clause the rate of 100% was applied (previously 50%) regardless of the period of placement

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a portion of its foreign currency reserve to its gyro account.

Other foreign currency cush funds of RSD 23 thousand (2015: RSD 6,075 thousand) entirely relate to the clearing account held with the 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, 2016	December 31, 2015
Securities held for trading (in RSD)	242,920	798,788
Securities held for trading (in foreign currencies)	-	52,268
Total (Note 4.1.6)	**242,920**	**851,056**

Breakdown of financial assets held for trading is provided below:

In thousand RSD

	December 31, 2016	December 31, 2015
Republic of Serbia bonds	-	183,121
Corporate shares	-	4,520
Bank shares	-	275
Investment units of OIF monetary fund	242,920	663,140
Total	**242,920**	**851,056**

Investment units at 31 December 2016 in the amount of RSD 242,920 thousand relate to investment units of KomBank Cash Fund, Belgrade.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise*:*

	December 31, 2016	In thousand RSD December 31, 2015
Securities available for sale (in RSD)	43,826,167	42,487,488
Securities available for sale (in foreign currencies)	92,379,396	86,269,290
Total (Note 4.1.6 and 3.1)	**136,205,563**	**128,756,778**
Impairment allowance of securities available for sale	(81,710)	(370)
Total	**136,123,853**	**128,756,408**

Securities available for sale (in RSD) on December 31, 2016 relate to Republic of Serbia Treasury bills in the amount of RSD 9,407,495 thousand (2015: RSD 11,669,519 thousand), Republic of Serbia bonds in the amount of RSD 33,905,659 thousand (2015: RSD 29,948,565 thousand), bonds from the City of Pančevo and Municipalities Stara Pazova and Šabac in the amount of RSD 431,302 thousand (2015: RSD 443,283 thousand), bonds of the company Tigar a.d., Pirot in the amount of RSD 81,710 thousand (2015: RSD 79,442 thousand).

Out of the total amount of impairment allowance, RSD 81,710 thousand (2015: RSD 336 thousand) relates to the bonds of the company Tigar a.d., Pirot.

Securities available for sale in foreign currencies relate to Republic of Serbia Treasury bills in the amount of RSD 4,786,597 thousand (2015: RSD 11,854,135 thousand), long-term Government of the Republic of Serbia bonds in the amount of RSD 85,773,869 thousand (2015: RSD 72,238,381 thousand); foreign bank bonds - Raiffeisen Bank International in the amount of RSD 1,818,930 thousand (2015: RSD 2,017,859 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, 2016	In thousand RSD December 31, 2015
Individual impairment allowance		
Balance at January 1	370	494
Current year impairment allowance:		
Charge for the year (note 14)	81,230	618
Effects of the changes in foreign exchange rates (note 14)	115	6
Reversal (note 14)	(5)	(748)
Total individual impairment allowance	**81,710**	**370**

22. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity comprise:

	December 31, 2016	December 31, 2015
Securities held to maturity (discounted bills of exchange) (note 4.1.6)	84,169	97,669
Impairment allowance of securities held to maturity	(84,169)	(97,669)
Total	**-**	**-**

Impairment allowance of securities held to maturity

In thousand RSD

	December 31, 2016	December 31, 2015
Individual impairment allowance		
Balance as of January 1	(2,715)	18,213
Impairment allowance for the year:		
Charge for the year (Note 14)	-	672
Reclassified from group to individual impairment	-	-
Reversal (Note 14)	-	(21,600)
Written off	(5,500)	-
Total individual allowance	**(8,215)**	**(2,715)**

Impairment allowance of securities held to maturity

In thousand RSD

Collective impairment allowance	December 31, 2016	December 31, 2015
Balance as of January 1	100,384	101,514
Impairment allowance for the year:		
Charge for the year (Note 14)	936	7,350
Reclassified from individual to group impairment	-	-
Reversal (Note 14)	(936)	(7,350)
Written off	(8,000)	(1,130)
Total collective allowance	**92,384**	**100,384**
Total individual and collective allowance	**84,169**	**97,669**

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

23.1 Loans and receivables due from banks include:

	December 31, 2016	December 31, 2015
RSD loans and receivables		
Per repo transactions	20,000,000	1,200,000
Loans for working capital	3,000,000	100,000
Overnight loans	1,000,000	500,000
Other receivables	14,580	8,686
Prepayments	22,199	14,885
Impairment allowance	-	(105,463)
	24,036,779	**1,718,108**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	8,231,797	8,456,806
Overnight loans	585,677	1,279,338
Other loans and receivables due from foreign banks	641,235	600,328
Foreign currency deposits placed with other banks	6,177,432	3,494,424
Prepayments	2,290	2,611
Other receivables	8,824	15,265
Loans to foreign banks (subsidiaries)	176,389	573,380
Secured foreign currency warranties	1,050,864	998,037
Impairment allowance	(309,874)	(294,297)
	16,564,634	**15,125,892**
	40,601,413	**16,844,000**

As of December 31, 2016 securities acquired through "reverse" repo transactions with the National Bank of Serbia amounting to RSD 20,000,000 thousand relate to the Treasury bills purchased from the National Bank of Serbia with maturities of up to 8 days at the annual interest rate from 2.54% to 3.09%.

Short-term RSD deposits due from banks were deposited for a period of a year at interest rates ranging from 2.55 % to 3.30% per annum.

Short-term foreign currency deposits due from banks were deposited for a period of a year at interest rates ranging from 0.10% to 0.30% annually for EUR deposits, from 0.15% to 0.5% for USD and from 0.02% to 0.80 for CHF.

Interest rates applied to the long-term revolving loans approved to subsidiary banks ranged between 2.568% and 2.738% which represents 3M Euribor plus fixed margin of 2.87.

Long-term loans to subsidiary banks were placed at a rate of 2.559% to 2.710%, which represents 3M EURIBOR plus a fixed margin t of 2.75.

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

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

Individual impairment allowance	**2016**	**2015**
Balance at January 1	399,760	368,589
Current year impairment allowance:		
Charge for the year (note 14)	-	1
Effects of the changes in foreign exchange rates (note 14)	15,577	31,171
Written off	(105,463)	-
Reversal (note 14)	-	(1)
Balance at December 31	**309,874**	**399,760**

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers:

	2016			2015		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	599,731	(77,830)	521,901	587,564	(187,201)	400,363
Working capital loans	43,540,645	(8,036,684)	35,503,961	42,334,657	(10,195,536)	32,139,121
Export loans	2,171,791	(2,039,330)	132,461	2,275,456	(1,525,569)	749,887
Investment loans	27,338,065	(3,676,973)	23,661,092	25,708,395	(3,002,823)	22,705,572
Purchased loans and receivables - factoring	298,788	(807)	297,981	217,372	(12,412)	204,960
Loans for payments of imported goods and services	2,306,016	(2,097,996)	208,020	5,372,720	(4,365,328)	1,007,392
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	479,893	(297,408)	182,485	2,107,567	(1,451,712)	655,855
Other loans and receivables	38,179,610	(10,567,868)	27,611,742	57,995,185	(12,954,715)	45,040,470
Prepayments	223,015	(127,098)	95,917	575,670	(205)	575,465
Accruals	(190,394)	-	(190,394)	(222,964)	-	(222,964)
	114,947,160	**(26,921,994)**	**88,025,166**	**136,951,622**	**(33,695,501)**	**103,256,121**
Retail customers						
Transaction account overdrafts	3,922,335	(649,424)	3,272,911	4,049,323	(644,649)	3,404,674
Housing loans	39,297,529	(963,039)	38,334,490	38,360,446	(839,267)	37,521,179
Cash loans	19,954,272	(904,510)	19,049,762	17,245,192	(911,791)	16,333,401
Consumer loans	160,580	(42,266)	118,314	285,596	(44,912)	240,684
Other loans and receivables	2,113,275	(160,734)	1,952,541	2,344,367	(144,053)	2,200,314
Prepayments	207,135	(3,038)	204,097	203,027	(3,834)	199,193
Accruals	(545,872)	-	(545,872)	(413,001)	-	(413,001)
	65,109,254	**(2,723,011)**	**62,386,243**	**62,074,950**	**(2,588,506)**	**59,486,444**
Balance as at December 31	**180,056,414**	**(29,645,005)**	**150,411,409**	**199,026,572**	**(36,284,007)**	**162,742,565**

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, 2016	December 31, 2015
Individual impairment allowance		
Balance as at January 1	35,020,153	10,989,768
Current year impairment allowance:		
Charge for the year (note 14)	11,070,613	13,905,073
Reclassified from group to individual impairment allowance	(3,253,505)	13,382,109
Effects of the changes in foreign exchange rates (note 14)	104,278	(12,069)
Reversal (note 14)	(2,944,495)	(3,244,827)
Written off	(11,816,533)	-
Other (note 14)	38,653	99
Total individual impairment allowance	**28,219,164**	**35,020,153**
Group impairment allowance		
Balance as at January 1	1,263,854	12,095,209
Current year impairment allowance:		
Charge for the year	10,310,276	8,276,559
Reclassified from group to individual impairment allowance	3,253,505	(13,382,109)
Effects of the changes in foreign exchange rates(note 14)	348,933	138,272
Reversal (note 14)	(7,242,240)	(6,401,996)
Written off (note 14)	(7,095,673)	(3,383)
Other (note 14)	587,186	541,302
Total group impairment allowance	**1,425,841**	**1,263,854**
Balance as at December 31	**29,645,005**	**36,284,007**

Loans and receivables due from retail customers

Short-term RSD and foreign currency loans were approved for periods from 30 days to one year, at interest rates ranging between 2.50% and 17.5% per annum.

Long-term RSD and foreign currency loans were approved for periods from 13 to the maximum of 30 years, at interest rates ranging between 2.50% and 13.95%.

Loans and receivables due from legal entities

Short-term RSD loans were approved for periods up to one year, at interest rates ranging between 0.3% and 1.0% per month. On the other hand, short-term foreign currency loans were approved for periods to one year, at interest rates ranging between 0.125% and 0.65% per month (EUR).

Long-term RSD loans were approved for periods from 18 to 24 months, at interest rates ranging between 1.5% and 6.25% per annum. Finally, long-term foreign currency loans were approved for periods up to 96 months, at interest rates ranging between 1.5% and 6.25% per annum (EUR).

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Risks and Uncertainties

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

25. INVESTMENTS IN SUBSIDIARIES

	December 31, 2016	December 31, 2015
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Budva	2,366,273	2,366,273
Impairment allowance	(2,869,029)	-
Total	**2,611,859**	**5,480,888**

Effects of conducted appraisals of investments in subsidiaries

Based on the fair value appraisal of investments in subsidiaries, total negative effects amounted to RSD 2,869,029 thousand. Negative effects have been recognized as impairment allowance in the income statement for the year 2016 as follows:

In thousands of RSD

Description	Book value (RSD)	Appraisal value (EUR)	Appraisal value (RSD)	Impairment allowance as at December 31, 2016 (2-4)
1.	2.	3.	4.	5.
Share in KB Budva	2,366,273	8,886	1,097,153	1,269,120
Share in KB B. Luka	2,974,615	11,134	1,374,706	1,599,909
Total	**5,340,888**	**20,020**	**2,471,859**	**2,869,029**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

	December 31, 2016	December 31, 2015
Intangible assets	361,442	209,807
Intangible assets in progress	1,065	7,023
Total	**362,507**	**216,830**

26.2 Movements on the account of intangible assets in 2015 and 2016 are presented below:

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
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**
Balance at January 1, 2016	1,612,589	7,023	1,619,612
Additions	-	349,007	349,007
Transfers	354,965	(354.965)	-
Balance at December 31, 2016	**1,967,554**	**1,065**	**1,968,619**
Accumulated Amortization			
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**
Balance at January 1, 2016	1,402,782	-	1,402,782
Charge for the year (Note 16)	203,330	-	203,330
Balance at December 31, 2016	**1,606,112**	**-**	**1,606,112**
Net Book Value			
- Balance at December 31, 2015	**209,807**	**7,023**	**216,830**
- Balance at December 31, 2016	**361,442**	**1,065**	**362,507**

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

	December 31, 2016	December 31, 2015
Property	5,221,254	5,393,184
Equipment	586,365	702,923
Investments in progress	48,839	43,465
Total	**5,856,458**	**6,139,572**

Bank has engaged independent appraisers that have, in total, appraised 82 properties, 69 of which are used in business purposes while the remaining 13 are investment properties.

Non-current assets held for sale and properties acquired in lieu of debt collection have not been appraised, since they are valued according to IFRS 5 and Bank's internal guide book, at least once a year. Their fair value is decreased annually according to independent reputable appraiser.

Effects of the conducted appraisals:

Based on the Report of the independent appraisers, total negative effect amounted to RSD 538,690 thousand (greater decreases than increases) and it is recognized as:

- Net expense in the income statement for the year ended December 31, 2016 at RSD 597,270 thousand and
- Net increase in the revaluation reserves at 58,590 thousand as follows:

Accumulated effects of property appraisals			
		Effect	
Appraisal	**Increase/Decrease**	**Income statement**	**Balance sheet**
Increase in value	**(746,955)**	**(629,685)**	**(117,270)**
- Property, plant and equipment	(509,838)	(392,568)	(117,270)
- Investment properties	(237,117)	(237,117)	-
Increase in value	**208,265**	**32,415**	**175,850**
- Property, plant and equipment	208,265	32,415	175,850
Total:	**(538,690)**	**597,270**	**58,580**

In the process of adjustment to the carrying value of property for use for business purposes with their fair value, increase is made in the revaluation reserve in equity, and reduces the income statement or the revaluation reserves if they are formed in previous years for the asset.

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

27.2 Movements on the account of property and equipment in 2015 and 2016 are presented below:

	Property	Equipment	Investment in Progress	Total
Cost				
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**
Balance at January 1, 2016	7,089,568	3,267,620	43,465	10,400,653
Additions	-	-	366,518	366,518
Transfers from investment in progress	64,470	118,654	(183,124)	-
Transfer on investment properties	-	-	(79,470)	(79,470)
Transfers from investment properties	339,823	-	-	339,823
Transfers to assets held for sale	(77,669)	-	(98,550)	(176,219))
Disposal	(10,182)	(16,933)	-	(27,115)
Sales	-	(2,446)	-	(2,446)
Appraisal increase	295,623	-	-	295,623
Appraisal decrease	(643,585)	-	-	(643,585)
Balance at December 31, 2016	**7,058,048**	**3,366,895**	**48,839**	**10,473,782**
Accumulated Depreciation				
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**
Balance at January 1, 2016	1,696,384	2,564,697	-	4,261,081
Charge for the year (Note 16)	175,068	234,756	-	409,824
Transfers from investment properties (Note 28.1)	68,698	-	-	68,698
Transfers to assets held for sale	(48,397)	-	-	(48,397)
Disposal	(8,570)	(16,667)	-	(25,237)
Sales	-	(2,256)	-	(2,256)
Revaluation (increase)	87,358	-	-	87,358
Revaluation (decrease)	(133,747)	-	-	(133,747)
Balance at December 31, 2016	**1,836,794**	**2,780,530**	**-**	**4,617,324**
Net Book Value				
- Balance at December 31, 2015	**5,393,184**	**702,923**	**43,465**	**6,139,572**
- Balance at December 31, 2016	**5,221,254**	**586,365**	**48,839**	**5,856,458**

The Bank has no buildings under mortgage in order to secure repayment of the loans.

Due to the incomplete land registers as at 31 December 2016, the Bank for 34 buildings of total net carrying value of RSD 555.855 thousand without a proof of ownership (the number of objects includes assets acquired in lieu of debt collection). The Bank's management is taking all the necessary measures to obtain title deeds.

During 2016, the Bank wrote-off permanently unusable fixed assets total net carrying value RSD 1,878 thousand.

During 2016 the Bank sold the equipment of net carrying value of RSD 190 thousand.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2016 and 2015 are presented below:

	Total
Cost	
Balance at January 1, 2015	2,810,832
Transfer from investments in progress (Note 27.2)	259,752
Transfer from property, plant and equipment (Note 27.2)	-
Sales	(2,783)
Appraisal (revaluation) – decrease	(42,798)
Balance at December 31, 2015	**3,025,003**
Balance at January 1, 2016	3,025,003
Transfer from investments in progress (Note 27.2)	79,470
Transfer to property, plant and equipment	(339,823)
Sales	(46,045)
Appraisal (revaluation) – decrease	(269,621)
Balance at December 31, 2016	**2,448,984**
Accumulated Depreciation	
Balance at January 1, 2015	229,688
Charge for the year (Note 16)	53,344
Sales	(1,178)
Appraisal (revaluation) – decrease	(877)
Balance at December 31, 2015	**280,977**
Balance at January 1, 2016	280,977
Charge for the year (Note 16)	52,871
Transfer to property, plant and equipment	(68,698)
Sales	(1,477)
Appraisal (revaluation) – decrease - (Note 17)	(32,505)
Balance at December 31, 2016	**231,168**
Net Book Value	
- Balance at December 31, 2015	**2,744,026**
- Balance at December 31, 2016	**2,217,816**

As at December 31, 2016 the Bank stated investment property as totaling RSD 2,217,816 thousand comprised of leased out buildings/premises.

Based on the concluded long-term lease, the Bank has reclassified one part of its investment property, business premises in Makedonska 29 valued at RSD 382,811 thousand, as property, plant and equipment.

In 2016, based on the independent appraisals, the fair value of investment properties has been decreased by RSD 237,117 thousand.

Also, the Bank has sold one of its investment properties, in Resavska 29, and consequently, decreased its investment properties by RSD 44,568 thousand net carrying value.

28. INVESTMENT PROPERTY (Continued)

28.1 Movements on the account of investment property in 2016 and 2015 are presented below (continued):

Appraisal value of investment properties:

Property	Area in m²	Book value before the appraisal in 000 RSD	Appraisal value in 000 EUR	Appraisal value in 000 RSD	Difference in 000 RSD
Belgrade, Trg politike 1	3,354	809,997	6,560	701,408	(108,589)
Negotin, Save Dragovića 20-22	658	40,174	326	32,498	(7,676)
Lovćenac, Maršala Tita bb,	46,890	163,968	1,328	158,168	(5,800)
Niš, Bulevar 12. februar bb	816	16,930	137	16,714	(216)
Novi Sad, Vardarska 1/B	291	46,998	381	29,139	(17,859)
Novi Sad, Bulevar Oslobođenja 88, 3 premises	367	150,935	1,222	53,958	(96,977)
Total		**1,229,002**		**991,885**	**(237,117)**

28.2 As of December 31, 2016 the negative net result realized from investment property amounted to RSD 25,938 thousand:

Property	Area in m²	Total Expenses	Total Rental Income	Net Result
Belgrade, Trg politike 1	3,354	(21,456)	8,783	(12,673)
Niš, Vrtište nova d-zgrada	1,816	(2,358)	2,114	(244)
Niš, TPC Kalča	85	(803)	4,387	3,584
Beograd, Omladinskih brigada 19	15,218	(15,285)	2,540	(12,745)
Šabac, Majur, Obilazni put bb	1,263	(1,037)	293	(744)
Lovćenac, Maršala Tita bb,	46,890	(3,833)	2,462	(1,371)
Negotin, Save Dragovića 20-22	658	(922)	122	(800)
Niš, Bulevar 12. february bb	816	(282)	75	(207)
Beograd, Radnička 22	7,190	(16,295)	17,979	1,684
Beograd, Beogradska 39	460	(3,095)	777	(2,318)
Novi Sad, Vardarska 1/B,	291	(1,849)	1,893	44
Novi Sad, Bulevar Oslobođenja 88, 3 premises	367	(2,341)	2,748	407
Kotor, business premises, zgr.br.1 *	207	(555)	-	(555)
Beograd, Luke Vojvodića 77a*	80	-	-	-
		(70,111)	**44,173**	**(25,938)**

*business premises in Kotor and Belgrade have been recognized as investment properties as of December 31, 2016.

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

	December 31, 2016	December 31, 2015
Non-current assets held for sale and assets from discontinued operations	183,170	63,314
	183,170	**63,314**

Non-current assets held for sale:

Property	**Area in m^2**	**Carrying Value**
Jasika, business premises	75.87	580
Požarevac, M.Pijade 2, business premises	790.82	30,050
Požarevac, M.Pijade 2, business premises	880.86	24,865
Belgrade, Toše Jovanovića 7, business premises	24.05	2,089
Vrbas, M. Tita 49, business premises	145.56	3,767
Kotor, business premises 1 and 2	690.00	98,550
Jastrebac, resort building	687.00	21,206
Jastebac, country house	108.00	1,729
Jastrebac, generator storage	65.00	334
		183,170

During 2016, one property (a flat in Krusevac) has been sold, which consequently led to a reduction in non-current assets held for sale by RSD 6,004 thousand net carrying value. The flat was sold for RSD 6,237 thousand.

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

During 2016, based on the certified independent appraiser, value of non-current assets held for sale has been decreased by RSD 1,963 thousand (note 17).

30. OTHER ASSETS

Other assets comprise:

	December 31, 2016	December 31, 2015
In RSD		
Fee receivables per other assets	93,096	131,512
Inventories	131,309	179,683
Assets acquired in lieu of debt collection	3,002,894	2,957,046
Prepaid expenses	100,407	145,919
Equity investments	1,380,551	1,375,601
Other RSD receivables	2,938,357	2,565,712
	7,646,614	**7,355,473**
Impairment allowance of:		
Fee receivables per other assets	(44,608)	(68,028)
Assets acquired in lieu of debt collection	(1,018,719)	(653,745)
Equity investments	(503,761)	(448,581)
Other RSD receivables	(866,263)	(588,049)
	(2,433,351)	**(1,758,403)**
In foreign currencies		
Fee receivables per other assets	77	-
Other receivables from operations	384,464	315,279
Receivables in settlement	868,544	289,723
Other foreign currency receivables	2,146	20,675
	1,255,231	**625,677**
Impairment allowance of		
Other receivables from operations	(134,418)	(102,261)
Receivables in settlement	(81,221)	(80,003)
	(215,639)	**(182,264)**
	6,252,855	**6,040,483**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

30. OTHER ASSETS (continued)

Throughout regular yearly inventory count, inventories worth 22 thousand RSD have been written off as expense of a period.

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

		In thousand RSD
	December 31, 2016	**December 31, 2015**
Individual impairment allowance		
Balance as of January 1, 2016	(104,131)	-
Impairment allowance for the year:		
Charge for the year (Note 14)	374,702	11,326
Foreign currency exchange effects (Note 14)	394	(312)
Reversal (Note 14)	(3,925)	(115,145)
Written off	(62,482)	-
Total individual impairment allowance	**204,558**	**(104,131)**
Group impairment allowance		
Balance as of January 1, 2016	1,912,656	1,306,301
Impairment allowance for the year:		
Charge for the year (Note 14)	740,534	720,270
Foreign currency exchange effects (Note 14)	2,746	3,057
Reversal (Note 14)	(181,303)	(93,201)
Written off (Note 14)	(52,356)	(284)
Other (Note 14)	(94,147)	(23,487)
Total group impairment allowance	**2,328,130**	**1,912,656**
Balance as of December 31, 2016	**2,532,688**	**1,808,525**
Inventory impairment allowance (not exposed to credit risk)	**116,302**	**132,142**
Balance as of December 31, 2016	**2,648,990**	**1,940,667**

30. OTHER ASSETS (continued)

a) Equity investments

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

Equity investments	2016	2015
Equity investments in banks and other financial organizations	82,536	143,467
Equity investments in companies and other legal entities	468,277	455,922
Equity investments in non-resident entities abroad	829,738	776,212
	1,380,551	**1,375,601**
Impairment allowance of:		
Equity investments in banks and other financial organizations	(81,863)	(26,683)
Equity investments in companies and other legal entities	(421,898)	(421,898)
	(503,761)	**(448,581)**

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,266 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly pertain to: 14. 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, Belgrade Stock Exchange in the amount of RSD 2,246 thousand, Kompanija Dunav osiguranje a.d., Beograd in the amount of RSD 66,042 thousand and Politika a.d., Beograd in the amount of RSD 31,246 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 683,882 thousand and MASTER Card in the amount of RSD 145,856 thousand.

Impairment allowance of equity investments totaling RSD 503,761 thousand refers to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. oktobar a.d., Kruševac - RSD 324,874 thousand, Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand RTV Politika d.o.o., Beograd - RSD 37,634 thousand, Politika a.d., Beograd - RSD 28,484 thousand, Kompanija Dunav osiguranje a.d., Beograd - RSD 28,828 thousand.

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling RSD 864,220 thousand, receivables which relate to material values acquired in lieu of debt collection, advances paid for working capital assets of RSD 18,779 thousand, rental receivables of RSD 372,270 thousand and interest receivables per other assets of RSD 219,069 thousand and receivables from operations per court verdict totaling RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling RSD 868,544 thousand for the most part pertain to receivables for spot transactions of RSD 756,435 thousand.

30. OTHER ASSETS (continued)

c) Material values acquired in lieu of debt collection

Material values in lieu of debt collection totaling RSD 3,002,894 thousand gross, less recorded impairment allowance of RSD 1,018,719 thousand, with the net carrying value of RSD 1,984,175 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 m²	Value	Acquisition Date
I.C.P Kruševac, commercial building	12,836	47,174	08.06.2012.
Novi Pazar, Ejupa Kurtagića 13, house	139.90	3,784	24.07.2012.
Majur, Tabanovačka, category 4 arable field	14,452	1,634	10.08.2012.
Mladenovac, category 3 arable field	16,633	268	25,06.2012.
Obrenovac, Mislođin, arable field	10,017	1,054	11.07.2012.
Gnjilica, category 7 arable field	2,638	113	15.04.2008.
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	104,705	21.01.2009.
Residential building, Čačak, at Ratka Mitrovića 6	195	2,357	12.05.2009.
Novi Pazar, Kej skopskih žrtava 44, premises	82.95	2,840	27.09.2006.
Tivat, Mrčevac – residential building, auxiliarry facilities in construction and garage	277	5,202	23.12.2009.
Tutin, Buče category 4 forest	8,292	331	12.10.2010.
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	321	27.09.2012.
Budva, category 4 forest	974	4,023	27.05.2011.
Prijevor, category 4 forest	1,995	4,732	27.05.2011.
Residential building Galathea	925.35	244,494	21.11.2011.
Prijepolje, Karoševina, saw mill	450	1,063	08.11.2013.
Ćuprija, Alekse Šantića 2/24, apartment	72.40	872	15.01.2013.
Niš, Ivana Milutinovića 30, business premises	438.39	5,298	23.04.2013.
Niš, Triglavska 3/1, apartment	79.80	3,406	04.06.2013.
Vranić, Milijane Matić 2, commercial building, ancillary facilities and land	10,584.24	25,790	09.07.2013.
Mladenovac, field, category 3 forest	1,142	494	18.07.2013.
Niš, Bulevar 12. februara, warehouse- ancillary facility	2,062	42,088	30.07.2013.
Kula, Železnička bb, business premises, warehouse, transformer substation	7,959	23,663	01.10.2013.
Total I		**525,706**	

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 m²	Value	Acquisition Date
Kotor, business premises, property 1	106	24,891	22.12.2016.
Kotor, business premises, property 2	345	81,014	22.12.2016.
Kotor, business premises, property 3	345	81,014	22.12.2016.
Total II		**186,919**	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

30. OTHER ASSETS (continued)

III 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, village Radjevo, warehouse	394	455	11.06.2014.
CM Vukovac, CM Milatovac, arable land	132,450	573	16.05.2014.
Bor, Nikole Pašića 21, production plant and warehouse	3,823	61,916	08.05.2014.
Subotica, Magnetna 17, production plant, warehouse	2,492	48,007	18.07.2014.
Reževići, Montenegro, karst, category 5 forest	1,363.20	19,954	22.07.2014.
Reževići, Montenegro, category 5 forest	5,638.54	82,528	22.07.2014.
Bajina Bašta, Vojvode Mišića 72/1, family house	110.25	2,643	01.08.2014.
Mokra Gora, house, fields	58,400	4,289	31.01.2014.
Kopaonik, house and yard	337	4,235	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 6/3	29	3,122	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 7/3	44	4,737	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 8/3	35	3,768	31.01.2014
Novi Sad, Bul.Oslobođenja 30a, business premises 9/3	34	3,660	31.01.2014.
Novi Sad, Bul.Oslobođenja 30a, business premises 10/3	39	4,199	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 22	226	28,152	31.01.2014.
Novi Sad, Bul.Oslobođenja 88, business premises no. 23	253	31,485	31.01.2014.
Novi Sad, Tihomira Ostojica 4, business premises no. 7	134	9,013	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 8	81	5,106	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 9	79	4,980	31.01.2014.
Novi Sad, Polgar Andraša 40/a, business premises no. 10	408	25,720	31.01.2014.
Zrenjanin, Novosadski put 4, building with land	9,144	36,157	14.08.2014.
Niš, Ivana Gorana Kovačića 31, residential building	434.58	4,692	17.04.2013.
Mladenovac, category 3 and 4 arable fields	7,768	254	03.10.2014.
Bela Crkva, forest	4,187	84	03.10.2014.
Mladenovac, arable fields and orchards	25,136	539	03.10.2014.
Niš, Čajnička bb, residential building	825.74	11,158	14.03.2013.
Niš,Sjenička 1, business premises and warehouse	1,452.73	13,738	14.03.2013.
Valjevo, Vojvode Mišića 170, residential building	106	1,777	25.09.2014.
Beograd, Resavska 31, building	3,411	370,417	03.06.2014.
Zemun, Cara Dušana 130, production plants	6,876	104,334	16.06.2014.
Valjevo, Radnička 6, flat	69	2,888	28.05.2015.
Niš, Šumadijska 1, business premises	504.60	1,879	04.12.2014.
Mionica, Andre Savčić 8, family house	107	1,806	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	291	11.06.2012.
Sokobanja, production plant with land	5,042	24,561	31.07.2012.
Sokobanja, portirnica with land	2,005	706	31.07.2012.
Sokobanja, building with land	4,194	9,304	31.07.2012.
Sokobanja, arable land and category 4 orchard	417,908	15,082	31.07.2012.
Beograd, B.Pivljanina 83, residential building	278.52	65,233	23.08.2012.
Prokuplje, category 3 arable field	12,347	774	28.08.2015.
Divčibare, category 5 field	8,012	4,270	02.12.2015.
Lebane, Branka Radičevića 17, residential-business building	768.42	5,927	27.08.2015.
Loznica, Lipnica, residential-business building with land	146	2,149	15.10.2015.
Vrh polje, zgrada ugostiteljstva with land	1,334	2,456	16.05.2013.
Kruševac, St.selo, concrete base with land	100,560	141,143	11.03.2016.
Zrenjanin, Bagijaš, category 2 pasture	230	49	22.12.2015.
Svilajnac, Kodublje, commercial building, plant and land	10,462	33,893	26.02.2016.
Aleksandrovo, Merošina, building with land	8,866.39	15,211	23.12.2015.
Čačak, Suvo polje, buildings 1 and 2 with land	1,225	12,444	05.05.2016.
Bojnik, Miroševce, arable fields, pasture and a vineyard	29,550	232	31.03.2016.
Valjevo, Bobove, category 6 and 7 arable fields	20,599	360	19.05.2016.
Total III		**1,232,350**	

30. OTHER ASSETS (continued)

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

Description	Value	Acquisition Date
Kruševac, movables (machinery, furniture, equipment)	9,643	08.06.2012.
Niš and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	12,816	31.07.2012.
Paraćin, coffee roasting line	3,822	31.12.2012.
Vranić, equipment, production line	5,135	09.07.2013.
Total IV	**31,416**	

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

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	4,786	03.06.2015.
Equipment, supply of secondary raw materials	1,812	18.07.2014.
Movables, installation materials	799	13.05.2014.
Movable assets	18	08.12.2015.
Other	370	
Total V	**7,784**	
TOTAL (Net carrying value) I + II+ III+ IV+V	**1,984,175**	

During 2016, the Bank sold one property, in Resavska 29, net carrying value shown in the material values acquired in lieu debt collection of RSD 288,314 thousand. Part of this property was accounted as Investment property, RSD 44,568 thousand. Total net carrying value of the property was RSD 332,882 thousand, and it was sold for RSD 326,688 thousand.

Furthermore, during 2016 the Bank sold eight properties thus decreasing the value of the assets acquired in lieu of debt collection by the total of RSD 139,261 thousand (three flats in Novi Beograd, house in Novi Pazar, land in Novi Pazar, Nis, Tutin and Rezevici). The total sales price of the aforesaid properties amounted to RSD 145,294 thousand.

Bank has engaged independent appraisers that have appraised non-current material values acquired in lieu of debt collection, acquired prior the period of twelve months.

Effects of property impairment	377,012
Effects of equipment impairment	50,087
TOTAL	427,099

Total negative effect amounted to RSD 427,099 thousand and it was recognized as expense of a period as follows (note 14):

- For properties RSD 354,760 thousand based on lower appraisal market value and RSD 20,237 thousand according to internal act due to Bank's inability to sell the property in the period shorter than 12 months, even though the appraisal value is higher than book value, and finally RSD 2,015 thousand according to internal Bank's decision
- For equipment RSD 50,040 thousand based on lower appraisal market value and RSD 47 thousand according to internal decision.

30. OTHER ASSETS (continued)

G1.1 Appraisal value of properties acquired in lieu debt collection

In 000 RSD

Property	Area in м^2	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net carrying value in RSD	Difference in value
Beograd, Resavska 31, building	3,411	564,467	3,000	370,417	(194,050)
Čačak, Hotel „Prezident“, Bulevar oslobođenja BB	2,278.92	110,921	848	104,705	(6,216)
Novi Sad, Bulevar oslobođenja 88, busines premises 22	226	31,258	228	28,152	(3,106)
Novi Sad, Bulevar oslobođenja 88, busines premises 23	253	39,285	255	31,485	(7,800)
Zemun, Cara Dušana 130, production complex	6,876	206,764	845	104,334	(102,430)
Niš, Ivana Gorana Kovačića 31, flat	434,58	4,830	38	4,692	(138)
Reževići, Crna Gora, a karst and a forest	1363.33	24,262	162	19,954	(4,308)
Reževići, Crna Gora, category 5 forest	5,638.80	85,821	668	82,528	(3,293)
Novi Pazar, Kej Skopskih žrtava 44, premises	82,95	3,019	23	2,840	(179)
Vranić, Milijane Matić 2, business premises with land	10,584.24	26,758	209	25,790	(968)
Lebane, Branka Krsmanovića 17, residential commercial building	768,42	6,246	48	5,927	(319)
Novi Sad, Tihomira Ostojića 4, business premises 7	134	9,661	73	9,013	(648)
Mokra Gora, fields and a house	58,400	7,275	35	4,289	(2,986)
Novi Sad, Polgar Andraša 40/a, business premises 8	81	7,825	41	5,106	(2,719)
Novi Sad, Polgar Andraša 40/a, business premises 9	79	7,632	40	4,980	(2,652)
Novi Sad, Polgar Andraša 40/a, business premises 10	408	44,637	208	25,720	(18,917)
Kopaonik, house with land	337	8,212	34	4,235	(3,977)
Beograd, Mihaila Avramovića 14a, residential building	925.35	252,316	2,100	244,494	(7,822)
Kruševac, Koševi bb, production-commercial building	12,836	48,683	420	47,174	(1,509)
Subotica, Magnetna 17, production plant and a warehouse	2,492	49,542	482	48,007	(1,535)
Beograd, Baje Pivljanina 83, commercial building	278,52	67,320	584	65,233	(2,087)
Bor, Nikole Pašića 21, buildings, a warehouse and a production plant	3,823	63,896	570	61,916	(1,980)
Zrenjanin, Bagljaš, Novosadski put 4, buildings, a pump and land	9,374	37,364	431	36,207	(1,157)
Novi Sad, Bulevar oslobođenja 30a, 5 business premises	181	20,109	164	19,486	(623)
Sinex, production plant, land and an orchard	429,419	51,009	749	49,653	(1,356)
Kula, Železnička bb, business premises with land	7,959	24,420	243	23,663	(757)
Niš, Čajnička, residential building	825.74	11,515	176	11,158	(357)
Niš, Sjenička, commercial building, warehouses and a workshop	1,452.73	14,178	200	13,738	(440)
Niš. Šumadijska 1, business premises	504.60	1,939	70	1,879	(60)
Niš, Ivana Milutinovića 30, business premises	438.69	5,468	56	5,298	(170)
Niš, Triglavska 3, a flat	79.8	3,515	36	3,406	(109)
Valjevo, Radnička 6, a flat	69	2,981	35	2,888	(93)
Čačak, Ratka Mitrovića 6, a house	195	2,433	20	2,357	(76)
Mionica, Andre Savčića 8, a house	107	1,863	28	1,805	(58)
Majur, Tabanovačka, category 4 arable field	14,452	1,656	23	1,634	(22)
Divčibare, category 5 field	8,012	4,326	97	4,270	(56)
Obrenovac, Mislođin, category 3 arable field	5,320	1,068	24	1,054	(14)
Prokuplje, Oblačina, category 3 and 4 arable fields	12,347	784	29	774	(10)
Bela Crkva, Kajtasovo, a forest	4,187	85	1	84	(1)
Other (70 properties)	-	71,838	-	69,824	(2,014)
Total		**1,927,181**		**1,550,169**	**(377,012)**

30. OTHER ASSETS (continued)

G1.2 Appraisal value of equipment acquired in lieu debt collection

In 000 RSD

Description	Book value before the appraisal	Net carrying value in RSD	Difference in value
Movables	1,766	854	(912)
Equipment, inventory and secondary raw materials	2,338	1,812	(526)
Other	80,161	31,512	(48,649)
Total	**84,265**	**34,178**	**(50,087)**

For two buildings and a car worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

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

Deposits and other liabilities due to banks and other financial institutions comprise:

	December 31, 2016	December 31, 2015
Demand deposits	1,676,878	2,441,632
Term deposits	1,191,809	1,259,004
Borrowings	4,992,338	13,555,171
Expenses deferred at the effective interest rate (deductible item)	(43,055)	(108,817)
Other	16,992	12,327
Balance as at December 31	**7,834,962**	**17,159,317**

During 2016 foreign currency term deposits placed by banks were deposited at interest rate of 0.01% for CHF and 0.00 to EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

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

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

	December 31, 2016	December 31, 2015
EFSE	-	5,203,165
GGF	406,224	1,199,233
FMO	-	2,027,102
IFC	-	1,824,391
EBRD	4,586,114	3,301,280
Balance at December 31	**4,992,338**	**13,555,171**

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

Pursuant to the loan agreements executed with the creditors listed in the table above, the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained.

During 2016, the Bank has repayed a line of credit due to EBRD of RSD 17,143 thousand and made an agreement for a new one, of EUR 30,000 thousand. This line of credit has better credit terms, however, it resulted in total increase in borrowings of RSD 1,284,834 thousand.

Also, during 2016 with new line of credit arrangements with EFSE, FMO and IFC, the Bank has managed to prematurely repay principal of RSD 9,054,658 thousand.

32. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

Deposits and other liabilities due to customers comprise:

	December 31, 2016	December 31, 2015
Corporate customers		
Demand deposits	77,425,520	48,595,259
Overnight and other deposits	9,343,359	14,869,789
Borrowings	8,034,834	11,687,719
Earmarked deposits	888,281	7,317,913
Deposits for loans approved	651,072	773,109
Interest payable, accrued interest liabilities and other financial liabilities	518,268	761,349
Retail customers		
Demand deposits	22,047,442	18,688,616
Savings deposits	196,260,703	190,518,492
Earmarked deposits	4,021,364	2,745,406
Deposits for loans approved	1,992,364	1,654,322
Interest payable, accrued interest liabilities and other financial liabilities	1,326,108	2,329,681
Other deposits	112,045	64,248
Balance at December 31	**322,621,360**	**300,005,903**

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2016, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

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

In 2016 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between : the key policy rate less 4 percentage points for deposits placed from 3 to 14 days to key policy rate less 2.05 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited.

Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.0% and 0.40% annually for EUR deposits and from 0.00% to 1.00% for USD.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 1.85 to 1.70 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70%.

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

Retail Customer Deposits

Demand RSD savings deposits of retail customers were placed at the annual interest rate of 0.15%, while foreign currency demand deposits accrued interest at the respective rates of 0.00% and 0.10% for EUR and other currencies per annum. As of September 2016, these deposits are non-interest-bearing.

In 2016 short-term dinar RSD deposits of retail customers were placed at interest rates ranging from 2.00% to 4.50 % annually and those in foreign currencies at rates from 0.05% to 0.45% annually for EUR and from 0.10% to 1.00% annually for other currencies.

Long-term RSD deposits of retail customers were placed at interest rates ranging from 4.75% to 5.00 annually and those in foreign currencies at rates from 0.75% to 1.00% annually for EUR and from 1.00% to 1.50% annually for other currencies.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities which, for the purpose of compiling the balance sheet, are regarded as customers.

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

	December 31, 2016	December 31, 2015
Long term borrowings		
LEDIB 1 and 2 (Kingdom of Denmark)	18,660	39,696
Republic of Italy Government	374,774	649,398
European Investment Bank (EIB)	5,426,479	5,852,951
European Agency for Reconstruction (EAR)	194,465	280,630
KfW	-	4,865,044
Short term borrowings		
KfW	2,020,456	-
Balance at December 31	**8,034,834**	**11,687,719**

The above presented long-term and short-term borrowings mature in the period from 2017 to 2028.

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

Pursuant to the loan agreements executed Kreditanstalt fur Wiederaufbau (German Development Bank, abbreviated: KfW), the Bank is obligated to comply with certain financial covenants until the final repayment of loans obtained.

33. SUBORDINATED LIABILITIES

	December 31, 2016	December 31, 2015
Foreign currency subordinated liabilities	6,173,615	6,081,305
Other liabilities (accrued interest liabilities)	13,212	13,532
Expenses deferred at the effective interest rate (deductible item)	(8,437)	(16,875)
Balance at December 31	**6,178,390**	**6,077,962**

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 6,173,615 thousand, i.e., EUR 50,000 thousand. Loan has been approved by International Finance Corporation with the maturity date December 15, 2017.

34. PROVISIONS

Provisions relate to:

	December 31, 2016	December 31, 2015
Provisions for off-balance sheet items (Note 14)	430,941	540,123
Provisions for litigations (Note 37.4)	913,837	1,194,874
Provisions for employee benefits in accordance with IAS 19	442,516	374,023
Balance at December 31	**1,787,294**	**2,109,020**

Movements on the accounts of provisions are provided below:

	2016				2015			
	Provisions for Off-Balance Sheet Items (Note 14)	**Provisions for Litigations (Note 37.4)**	**Provisions for Employee Benefits (IAS 19)**	**Total**	**Provisions for Off-Balance Sheet Items (Note 14)**	**Provisions for Litigations (Note 39.4)**	**Provisions for Employee Benefits (IAS 19)**	**Total**
Balance, January 1	540,123	1,194,874	374,023	2,109,020	568,424	766,556	305,615	1,640,595
Charge for the year	522,126	368,501	64,866	955,493	599,089	435,896	33,856	1,068,841
Provisions against actuarial gains within equity	-	-	3,627	3,627	-	-	34,552	34,552
Release of provisions	-	(649,538)	-	(649,538)	-	(7,578)	-	(7,578)
Reversal of provisions	(631,308)	-	-	(631,308)	(627,390)	-	-	(627,390)
Balance at December 31	**430,941**	**913,837**	**442,516**	**1,787,294**	**540,123**	**1,194,874**	**374,023**	**2,109,020**

34. PROVISIONS (continued)

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of damage claims including interest and costs. Total provisions for 37 cases as of December 31, 2016 amounted to RSD 913,837 thousand.

Major items relate to:

- Provisions for arrangements with Intereksport ad, Beograd (in bankruptcy) - by letter of credit from 1991 in the amount of RSD 368,221 thousand.

The subject of the dispute has been split into two separate cases before the court - a complaint because of the settlement of obligations Intereksport ad, Beograd (bankrupt) by the Republic of Serbia as follows:

The Republic of Serbia, in the amount of USD 4,773 thousand for the principal (and USD 1,132 thousand for interest payments until the time of payment). Litigation was paid on October 10, 2016, and the amount of the provision is reduced to zero.

Based on the instructions of the Ministry of Finance of the Republic of Serbia on October 10, 2016, the Bank effected a payment of USD 7,030 thousand and 638 thousand for the costs of the dispute (USD 4,773 thousand for principal and USD 2,257 thousand of interest expense). The bank made the payment as a release in provision in the amount of RSD 649.538 thousand and the difference of RSD 125,567 thousand recognized as expense of the current period. The total amount of payments was RSD 775,105 thousand.

Upon payment, provision still contained amount for a part of the dispute towards to Intereksport ad Belgrade (in bankruptcy) in the amount of USD 1,946 thousand for the principal and USD 1,047 thousand for interest. As of December 31, 2016. The RSD equivalent for the mentioned provision is RSD 368,221 thousand.

- The Privatization Agency (Case Vektra M doo, Beograd) in the amount of RSD 226,536 thousand for interest.

Additional information about the litigation with the Privatization Agency (Case Vektra M doo, Beograd):

On the proposal of the Agency for privatization of 15 May 2015 the Commercial Court in Belgrade on 20 May 2015 issued an enforcement Iv 3750/15, which made the Bank liable to pay the amount of RSD 196,523 thousand with interest of July 4 2007 until the date of payment as well as the costs of the proceedings.

The subject of the dispute is the guarantee for good business performance in the amount of EUR 2,471 thousand issued based on the Agreement on the sale of social capital DP Zupa, concluded on January 13 2004 between the Agency for Privatization of the Republic of Serbia and the Company " Vektra M " doo, Beograd.

The Bank has made a provision under the guarantee (Increases in provisions for off-balance sheet) in the amount of RSD 260,686 thousand. Accrued interest from the dispute as of December 31, 2016 in the amount of RSD 226,356 thousand was recognized in the provision for litigation.

- Provision for legal dispute initiated by individual on the basis of unjust enrichement and retention of net dividends was made in total amount of RSD 163,756 thousand.

34. PROVISIONS (continued)

b) Provisions for retirement benefits:

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

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

	December 31, 2016	December 31, 2015
Discount rate	5.00%	5.25%
Salary growth rate within the Bank	5.00%	2.00%
Employee turnover	4.00%	5.00%

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

35. OTHER LIABILITIES

Other liabilities include:

	December 31, 2016	December 31, 2015
Accounts payable	268,295	187,831
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	303,250	269,768
Advances received	27,835	30,061
Accrued interest, fees and commissions	94,184	86,234
Accrued liabilities and other accruals	449,353	237,375
Liabilities in settlement	2,027,862	1,306,880
Dividend payment liabilities	2,490,770	2,586,716
Taxes and contributions payable	68,253	66,427
Other liabilities	417,767	149,076
Balance as at December 31	**6,147,569**	**4,920,368**

Liabilities in settlement totaling RSD 2,027,862 thousand mostly, in the amount of RSD 864,306 thousand and RSD 752,996 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.

Liabilities from profit in the amount of RSD 2,490,770 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 56,467 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 1,934,065 thousand and
- liabilities from profit to employees in the amount of RSD 500.237 thousand.

With the Decision of the Bank 9520 / 3d of May 24, 2016, a part of prior year's retained earnings was distributed for dividends on preferred shares in the amount of RSD 23,531 thousand with a payout limit of fulfillment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

36. EQUITY

36.1 Equity is comprised of:

	December 31, 2016	December 31, 2015
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	18,791,828	24,935,440
Revaluation reserves	4,311,409	3,749,864
Retained earnings	349,698	179,550
Loss for the period	(8,063,183)	(6,061,358)
Balance as at December 31	**55,424,302**	**62,838,046**

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, 2016 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, 2016**	**December 31, 2015**
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2016 was as follows:

Shareholder	Share Count	% share
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
East Capital (lux)-Balkan Fund	245,106	1.46
Invej d.o.o., Beograd	230,000	1.37
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
UniCredit bank, a.d., Srbija (*custody* account)	128,604	0.76
Stankom co. d.o.o., Beograd	117,535	0.70
UniCredit bank, a.d., Srbija	100,879	0.60
Evropa osiguranje a.d, Beograd in bancruptcy	86,625	0.52
UniCredit bank, a.d., Srbija	83,303	0.50
Others (1,184 shareholders)	1,337,058	7.51
	16,817,956	**100.00**

36. EQUITY (continued)

36.1 Equity is comprised of (continued):

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

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

Revaluation reserves totaling RSD 4,311,409 thousand (2015: RSD 3,749,864 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,030,557 thousand, net gains on the value adjustment of securities available for sale amounting to RSD 3,204,783 thousand and actuarial gains of RSD 76,069 thousand.

In 2016 prior years' dividends for 2013 on preferred shares were paid in the amount of RSD 196,477 thousand to shareholder IFC.

By the decision of the Bank number 9520/3c from May 24, 2016, loss from 2015 was covered in the amount of RSD 6,299,631 thousand as follows:

- part from the retained earnings in the amount of RSD 156.019 thousand and
- reserves from the Bank's profit for estimated losses on balance sheet assets in the amount of RSD 6,143,612 thousand.

The bank in 2016 did not carry out the payment of dividends in 2014 and 2015.

Total liabilities for dividends established by distribution of profit for 2014 and 2015 and earlier years is:

- RSD 56,467 thousand for preference shares
- RSD 1,934,065 thousand ordinary shares

On November 24 2014 preference shares were exchanged into ordinary shares with a rate of 6.29%.

The calculation for the payment of dividends on preference shares according to the Annual account for the year 2016 is based on the interest rate on savings deposits in RSD, deposited for a period of twelve months and amounts to RSD 16,808 thousand.

Correction of the prior year data - loss and reserves

In accordance with the requirements of IAS 8, which was related to the allocation of effects of changes in methods of income from interest, discount and premium of securities available for sale, comparative data presented in 2015 were restated as follows: Interest income from investment securities in the amount of RSD 238,273 thousand. By the same amount total net operating income and loss before and after tax are corrected. Loss for the period after all corrections is RSD 6,061,358 thousand. Correction of revaluation reserves for 2015 is carried down in the amount of 1,143,039 thousand.

36. EQUITY (Continued)

36.2. Earnings (loss) per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2016	2015
Loss plus preferred dividend (adjusted prior column)	(8,079,990)	(6,084,889)
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings (loss) per share (in RSD)	(480)	(362)

Basic loss per share for the year 2016 amounts to RSD 480 or 48.04% of the nominal value of ordinary shares, while for 2015 adjusted loss per share was RSD 362, or 36.18% of the nominal value of the ordinary shares. The increase of earnings per share in 2016 compared to 2015 was caused by the reported loss of the Bank's current operations in the amount of RSD 8,377,636 thousand.

Decreased (diluted) loss per share for the year 2016 amounts to RSD 480 or 48.04% of the nominal value of ordinary shares, while the 2015 loss amounted to RSD 362 or 36.18% of the nominal value of the ordinary shares.

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2016	December 31, 2015
Operations on behalf and for the account of third parties	4,418,079	4,444,445
Taken-over future liabilities	32,543,235	27,670,176
Other off-balance sheet items	483,408,961	548,292,589
Total	**520,370,275**	**580,407,210**

37.1 Guarantees and letters of credit

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

	December 31, 2016	December 31, 2015
Payment guarantees (Note 4.1.1.)	3,635,706	4,702,206
Performance guarantees (Note 4.1.1.)	6,728,901	6,503,652
Letters of credit	84,143	54,165
Balance as at December 31	**10,448,750**	**11,260,023**

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

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

37.2 The breakdown of commitments is provided below:

	December 31, 2016	December 31, 2015
Unused portion of approved payment and credit card loan facilities and overdrafts	9,355,501	9,036,547
Irrevocable commitments for undrawn loans	11,368,665	7,036,513
Other irrevocable commitments	547,811	337,093
Other commitments per contracted value of securities	822,508	-
Balance as at December 31	**22,094,485**	**16,410,153**

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

Funds managed on behalf and for the account of third parties amount to RSD 4,418,079 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,683,170 thousand and relate to the long-term housing loans extended to retail customers. Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 483,408,961 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients (RSD 61,574,024 thousand), the nominal value of the securities in the portfolio of the Bank (RSD 138,520,987 thousand), repo investments in Treasury bills (RSD 20,000,000 thousand), old FX savings bonds and the amount of permanent written-off balance sheet items - loans and receivables transferring to the off – balance in the amount of RSD 18,879,642 thousand. As per its operating license to perform custody operations, the Bank maintains the financial instruments of its clients on the security accounts, recorded off balance. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the 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 that amount to RSD 230,409,673 thousand.

37.4 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 2016 in the total amount of RSD 913,837 thousand (2015.: RSD 1,194,874 thousand) (Note 34).

As of December 31, 2016 contingent liabilities based on legal suits filed against the Bank amounted to RSD 1,635,241 thousand (for 321 cases).

In addition, the Bank is involved in legal suits against third parties where the most significant portion of the total claims amounted to RSD 166,446,926 thousand (for 560 cases with the largest individual claim amounts – cases with individual vale over RSD 10,000 thousand). The Bank's management anticipates favorable outcome of the most lawsuits.

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

37.5 Commitments for operating lease liabilities are provided below:

	December 31, 2016	December 31, 2015
Commitments due within one year	421,135	435,302
Commitments due in the period from 1 to 5 years	847,610	905,851
Commitments due in the period longer than 5 years	153,341	132,031
Total	**1,422,086**	**1,473,184**

37.6 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.

During 2016, the Bank had no tax controls.

38. RELATED PARTY DISCLOSURES

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

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

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

38.1. Shareholders and subsidiaries

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

A. Balance as at December 31, 2016

RECEIVABLES

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

LIABILITIES

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

INCOME AND EXPENSES

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

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

38. RELATED PARTY DISCLOSURES (continued)

B . Balance as 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**

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	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 RSD 202 thousand) from related party transactions.

38. RELATED PARTY DISCLOSURES (continued)

38.2. Other related parties

Loans and receivables from related parties

In 000 RSD

Loans and receivables	2016 Balance	2016 Off-balance	2016 Total	2015 Balance	2015 Off-balance	2015 Total
Lasta d.o.o., Sombor	347	-	347	1,010	-	1,010
VIŠ trade d.o.o., Vršac	-	-	-	1,763	919	2,682
Advokat Ristić Saša, Kruševac	1	-	1	1	-	1
MEPLAST d.o.o., Kruševac	1	-	1	132	-	132
MENTA d.o.o., Niš	1	6,000	6,001	1	6,000	6,001
JOY M&M d.o.o., Beograd	-	-	-	1	-	1
GP Company doo	-	-	-	1	-	1
Nova pekara d.o.o., Užice	1	-	1	1	-	1
ZLATIBORSKI KATUN BEOGRAD	1	-	1	-	-	-
Individuals	452,323	66,722	519,045	76,550	15,864	92,414
Total	**452,675**	**72,722**	**525,397**	**79,460**	**22,783**	**102,243**

Liabilities	2016 Deposits	2016 Borrowings	2016 Total	2015 Deposits	2015 Borrowings	2015 Total
Lasta doo, Sombor	2,600	-	2.600	1,618	-	1,618
Vis trade doo, Vrsac	13	-	13	6	-	6
Advokat Ristić Saša Krusevac	2	-	2	1	-	1
MEPLAST doo, Krusevac	733	-	733	1,240	-	1,240
MENTA doo, Niš	1,237	-	1,237	516	-	516
ABD COMPANY doo, Belgrade - in liquidation	-	-	-	12	-	12
Anfibija	-	-	-	4	-	4
JOY M & M doo, Beograd	-	-	-	26	-	26
Nova pekara d.o.o., Užice	801	-	801	788	-	788
Vladan Perišić SR Elektron, Zrenjanin	21	-	21	22	-	22
Goran Damjanovic, MARVIN + AZAMIT KRUŠEVAC	7	-	7	12	-	12
MATO SZR PLEASURES	-	-		1	-	1
MM 2010 Energo Ltd., Užice	800	-	800	14	-	14
ZLATIBORSKI KATUN BEOGRAD	16	-	16	-	-	-
EBRD (note 33)	-	4,586,114	4,586,114	-	3,301,280	3,301,280
International Finance Corporation (Note 33, 35)	-	6,173,615	6,173,615	-	7,905,696	7,905,696
Individuals	491,541	-	491,541	323,032	-	323,032
Total	**497,771**	**10,759,729**	**11,257,500**	**327,292**	**11,206,976**	**11,534,268**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

38. RELATED PARTY DISCLOSURES (continued)

38.2. Other related parties (continued)

Loans and receivables from related parties

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

38. RELATED PARTY DISCLOSURES (Continued)

38.2. Loans and receivables from related parties

	2015		
	Interest	Fees	Total
Income			
ABD COMPANY doo, Belgrade - in liquidation	-	1	1
Lasta doo, Sombor	259	212	471
Vis trade doo, Vrsac	59	88	147
Desk doo, Beograd	-	33	33
Advokat Ristić Saša Krusevac	-	6	6
MEPLAST doo, Krusevac	43	46	89
MENTA doo, Niš	-	308	308
MATO SZR Uzice	-	6	6
JOY M&M doo Beograd	-	11	11
Nova pekara d.o.o., Užice	-	150	150
MM 2010 Energo Ltd., Užice	-	3	3
Goran Damjanovic MARVIN + AZAMIT, Kruševac	-	19	19
Vladan Perišić SR Elektron, Zrenjanin	-	4	4
Univerzitet Singidunum	-	1	1
EBRD	-	77	77
Individuals	6,210	5,518	11,728
Total income	**6,571**	**6,483**	**13,054**

Expenses	**Interest**	**Fees**	**Total**
Lasta doo, Sombor	7	37	44
Vis trade doo, Vrsac	-	63	63
MEPLAST doo, Krusevac	5	-	5
MENTA doo, Niš	5	-	5
EBRD	136,345	-	136,345
International Finance Corporation	371,601	585	372,186
Individuals	6,747	4,636	11,383
Total expenses	**514,710**	**5,321**	**520,031**
Net expenses	**(508,139)**	**1,162**	**(506,977)**

38. RELATED PARTY DISCLOSURES (Continued)

38.3 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, 2016	December 31, 2015
Gross remunerations		
Executive Board	156,079	110,522
Net remunerations		
Executive Board	136,966	96,255
Gross remunerations		
Board of Directors and Audit Committee	39,414	29,720
Net remunerations		
Board of Directors and Audit Committee	24,223	18,783

During 2016 there was a change in the Executive Board and on that basis the agreed fees for contract termination were paid. Since those fees had a treatment of earnings, this consequently influenced the increase in gross and net salaries.

As at 31 December 2016 total loans and other receivables from the members of the Executive, Board of Directors and the Audit Committee amounted to 36,251 thousand (2015: 119.185 thousand).

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDEND

Unreconciled Outstanding Item Statements

Based on the performed regular annual inventory count at 31 December 2016, the Bank has unreconciled outstanding Item statements with 24 clients.

Unreconciled statements for 7 clients relate to clients who challenge the amount of receivables for advance payments, receivables arising from issued invoices, receivables from lease payments in total amount of RSD 15,186 thousand. These receivables were impaired in total amount.

For 4 clients unreconciled amounts are related to off-balance sheet items for irrevocable commitments for undrawn loans, challenge of the amount shown in the letter of intent, challenge of the balance to some guarantees on 31.12.2016 in total amount of 28,355 thousand RSD.

13 clients challenge a claim for compensation of domestic and international payment transactions, the due amount of the annuity, the manner of calculating default interest in total amount of RSD 2,113 thousand.

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

The Bank is in the continuous process of reconciling the challenged items.

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS AND UNREALIZED DIVIDEND (continued)

Unrealized Dividends

Unrealized dividends payable in 2016 amount to:

- Payable from 2014 RSD 1,934,065 thousand for preferred shares and 28,686 thousand for priority shares (Note 36.1).
- Contingent liabilities for the payment of priority dividends on the basis of the calculation for the year 2015 amounted to RSD 23,530 thousand (Note 36.1).

Contingent liabilities for the payment of priority dividends on the basis of calculation for the year 2016 amounted to RSD 16,808 thousand (Note 36.1).

40. EVENTS AFTER THE REPORTING PERIOD

In accordance with the judgment of the Supreme Court of Cassation Prev.no 275/2015 as of October 6, 2016 Bank's revision of litigation, which relates to repayment of the funds that have been removed from the Bank's account in favor of the client Intereksport - bankruptcy estate through enforced collection, was adopted (by the Decision on the execution of the Commercial Court in Belgrade I-166/15 of September 17, 2016), On February 24, 2017, the Bank received a payment of RSD 562.745 thousand. With the payment of the Bank's client Intereksport - bankruptcy estate Belgrade, the case has been settled since the client previously received amount of RSD 560.837 thousand. Difference represents court costs and fees in the amount of 1,907 thousand.

At the regular meeting of the Shareholders held on January 25, 2017. The decision was made on the sale of shares from the portfolio of the Bank in the following entities: Jubmes banka ad Beograd, Politika ad Beograd, Kompanija Dunav Osiguranje ado Beograd, Belgrade Stock Exchange and Trziste novca ad Beograd..

The Bank is in the process of electing a new member of the Executive Board responsible for the position of CFO (Chief Financial officer).

There were no other significant events after the date of the reporting period which would require adjustments or disclosures in the notes to the accompanying financial statements as of 31 December 2016.

41. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
USD	117.1353	111.2468
EUR	123.4723	121.6261
CHF	114.8473	112.5230

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on 22 March 2017.

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

Slađana Jelić
Deputy Chairmen of the Executive Board

Alexander Picker
Executive Board Chairman