2017 SEMI-ANNUAL CONSOLIDATED REPORT OF KOMERCIJALNA BANKA GROUP

CONTENTS

2017 SEMI-ANNUAL REPORT ON GROUP'S OPERATIONS

CONTENTS

Consolidated financial statements of the banking group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies EUR, used in the financial statements of Komercijalna banka AD Budva, and BAM, used in the financial statements of Komercijalna banka AD Banja Luka, have been converted to the dinar (RSD) as the Parent Bank’s reporting currency based on the officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been reclassified by applying the average official exchange rate in the Republic of Serbia for 30.06.2017 of RSD 123,4005 for EUR 1 and RSD 63,0937 for BAM 1 respectively, while other consolidated financial statements (Balance Sheet, Statement of Changes in Equity and Statement of Other Comprehensive Income) have been classified based on the closing exchange rate on the dates of those statements, which were RSD 120,8486 for EUR 1 and RSD 61,7889 for BAM 1 respectively.

Any transactions in foreign currency have been translated into dinars at the middle exchange rate in the interbank foreign exchange market as at the date of the relevant transaction.

The assets and liabilities presented in foreign exchange as at the date of the Consolidated Balance Sheet have been translated into dinars at the middle exchange rate in the interbank foreign exchange market applicable as at that date.

1. Key Performance Indicators of the Group

DESCRIPTION	30.06.2017	30.06.2016	INDICES 2017/ 2016	2015	2014	2013
(in RSD thousand and as a percentage)						
Profit / loss before tax	4.487.352	(2.690.366)	-	(6.893.558)	4.792.801	4.400.642
Net interest income	6.901.859	7.288.450	94,7	14.839.373	14.436.051	14.128.460
Net fee income	2.613.013	2.548.537	102,5	5.190.282	4.983.940	4.829.281
PROFITABILITY PARAMETERS[1]						
ROA	2,2%	(1,3%)	-	(1,6%)	1,2%	1,2%
ROE (on total capital)	14,5%	(8,7%)	-	(10,1%)	6,9%	6,8%
Net interest margin on total assets	3,3%	3,4%	-	3,5%	3,5%	3,9%
Cost / income ratio	62,8%	61,6%	-	60,4%	61,6%	59,8%
Operating expenses	5.971.139	6.056.861	98,6	12.092.310	11.953.592	11.327.317
Net loan impairment expense/income	265.192	(6.397.804)	-	(13.807.580)	(2.821.458)	(3.359.720)

DESCRIPTION	30.06.2017	31.12.2016	INDICES 2017/2016	2015	2014	2013
Consolidated balance sheet assets	403.419.016	428.827.608	94,1	416.461.558	430.702.109	384.296.023
Off-balance sheet operations	505.606.740	551.970.548	91,6	621.827.674	416.982.422	227.797.499
Loans and receivables from banks and other financial organisations	36.073.923	43.216.681	83,5	17.848.897	35.733.988	35.680.426
Loans and receivables from customers	160.940.496	166.401.008	96,7	179.422.656	203.828.648	195.554.454
Deposits and other liabilities to banks, other financial organisations and the central bank	7.860.534	9.822.519	80,0	18.768.726	26.247.764	23.227.373
Deposits and other liabilities to other customers	317.385.306	345.135.959	92,0	319.334.622	321.094.208	283.075.277
CAPITAL	64.599.275	59.292.420	109,0	64.694.402	72.100.729	67.041.696
Capital adequacy	24,0%	26,2%	-	23,1%	18,7%	19,9%
Number of employees	3.054	3.152	96,9	3.148	3.178	3.233
Assets per employee *(in RSD thousand)*	132.095	136.049	97,1	132.294	135.526	118.867
Assets per employee *(in EUR thousand)*	1.093	1.102	99,2	1.088	1.120	1.039

1 Profitability parameters are reported on annual basis

2. Operations and Organisational Structure of the Group

The Banking Group consists of three banks (the Parent bank and two subsidiaries) and one Investment Fund Management Company.

The Parent Bank, Komercijalna banka AD Beograd, performs the following operations within the framework of its registered business activity:

- Deposit operations (receiving and placing deposits)),
- Loan operations (granting loans and borrowing),
- Foreign currency and money exchange operations;
- Payment operations;
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuing of guarantees, guarantee of a bill and other forms of surety (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agency operations, upon prior approval of the National Bank of Serbia;
- Other operations it is authorised to conduct under the law.

The Parent Bank has been authorised for international payments since 2003, for broker/dealer operations since 2005, for custody bank operations since 2006 and for insurance agency operations since 2011.

Komercijalna banka AD Budva performs the following operations:

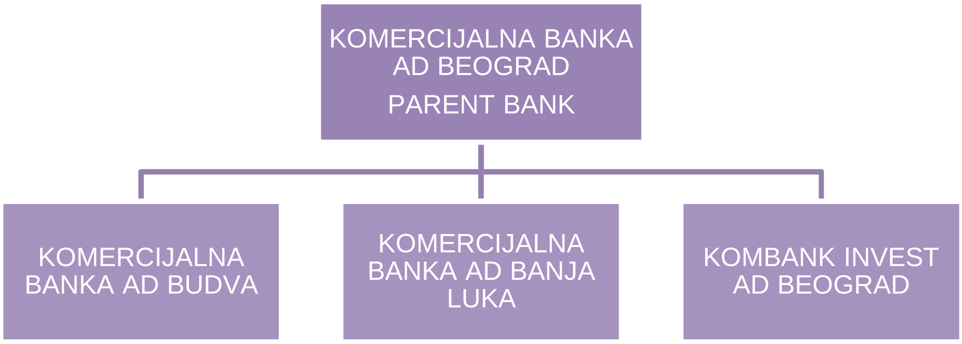
- Deposit operations (receiving deposits and other funds),
- Loan operations (granting loans and borrowing),
- Issues guarantees and assumes other obligations,
- Debt purchase and collection,
- Issues, processes and records payment instruments,
- International payments,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Data collection, prepares analyses and provides information and advice on creditworthiness of companies and entrepreneurs,
- Depository operations,
- Safekeeping of assets and securities,
- Other ancillary operations within the Bank’s scope of operations.

Komercijalna banka AD Banja Luka is registered in Bosnia and Herzegovina for payment operations and credit and deposit operations in the country and abroad, and in accordance with the regulations of Republika Srpska it is obligated to operate on the principles of liquidity, solvency and profitability.

IFMC KomBank INVEST AD Beograd is registered for performing the following operations:

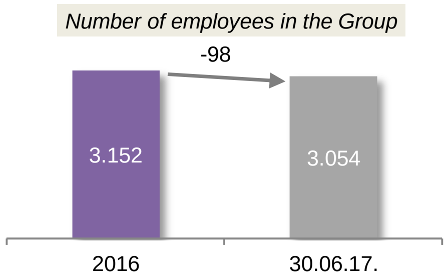
- Organising and managing open-end investment fund,
- Establishing and managing closed-end investment fund,
- Managing private investment fund.

2.1. Organisational Chart of the Group



2.2. Employment at the Group

As at 30.06.2017, KB Group had a total of 3.054 employees, this being 98 employees less than at the end of the last year. Reduction occurred in the Parent bank (94), and in KB Budva (5), while in KB Banja Luka the number of employees increased (1). The number of employees in Kombank INVEST has remained unchanged (4).



KOMERCIJALNA BANKA AD BUDVA	KOMERCIJALNA BANKA AD BANJA LUKA
100% owned by the Bank	99,998% owned by the Bank

Komercijalna banka AD Budva was incorporated in November 2002 as an affiliation of Komercijalna banka AD Beograd and was registered with the central register of the Commercial Court of Podgorica on 6 March 2003.

Komercijalna banka AD Banja Luka was incorporated in September 2006 and was registered with the relevant court register on 15 September 2006 pursuant to the Decision of the Basic Court in Banja Luka.

- 128 employees,
- 3 branches and 10 outlets

- 158 employees,
- Head Office, 9 branches and 10 agencies

KOMBANK INVEST AD BEOGRAD

100% owned by the Bank

Investment Fund Management (IFM) Company **KomBank INVEST AD Beograd** is the company registered with the Company Register maintained By the Business Registers Agency on 5 February 2008.

The company was incorporated as a privately held company operating in accordance with the Law on Investment Funds, Regulations on Investment Funds and Regulations on Licensing Requirements for IFM Operations.

As of 30.06.2017 the Company managed three investment funds, including:

1. KomBank INFOND, open-end growth investment fund (equity fund),
2. KomBank NOVČANI FOND, open-end value investment fund (money market fund),
3. KomBank DEVIZNI FOND, open-end value investment fund (money market fund).

As of 30 June 2017, the Company has 4 employees.

Key Information on Registered Offices of Group Members:

	KOMERCIJALNA BANKA AD BUDVA	KOMERCIJALNA BANKA AD BANJA LUKA	IFM KomBank INVEST AD BEOGRAD
	MONTENEGRO	REPUBLIKA SRPSKA	SERBIA
STREET ADDRESS	Podkošljun bb, Budva	Veselina Masleše 6, Banja Luka	Kralja Petra 19, Belgrade
TELEPHONE	+382-33-426-300	+387-51-244-700	+381-11-330-8160

KOMERCIJALNA BANKA AD BEOGRAD

41,7% owned by Republic of Serbia
24,4% owned by EBRD London

	BUSINESS CENTRE -BC	SEAT
1.	BC Beograd 1	Svetogorska 42-44, Beograd
2.	BC Beograd 2	Svetogorska 42-44, Beograd
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Novosadskog sajma 2, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Kneza Miloša 27
	CORPORATE BUSINESS CENTRE -CBC	**SEAT**
1.	CBC Beograd	Svetogorska 42-44,Beograd
2.	CBC Užice	Gradski trg bb,Valjevo
3.	CBC Kragujevac	Save Kovačevića 1, Kragujevac
4.	CBC Niš	Episkopska 32, Niš
5.	CBC Novi Sad	Korzo 10, Subotica

- 2.764 employees,
- 6 business centres, 5 corporate business centres and 1 branch

Key Information on Registered Office of the Parent Bank

DATA / ADDRESS	Svetog Save 14	Svetogorska 42-44	Makedonska 29
Contact Centre	+381 11/20-18-660; 0700-800-900	+381 11/20-18-660; 0700-800-900	+381 11/20-18-660; 0700-800-900
Website	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E-mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

As of 18 April 2017 new organizational structure of the business network of Komercijalna banka ad Beograd-Parent bank came into effect. Instead of the existing branches, the Business Centres and Corporate Business Centres are now introduced. Essentially, the territories of the newly established centres will be much larger, their structure is sales-oriented, and relocation of support functions from outlets and branches to Head Office will result in greater network efficiency in terms of achieving the targeted results.

3. Financial Position and Performance

3.1 Macroeconomic Business Conditions

Macroeconomic business conditions of the Group members

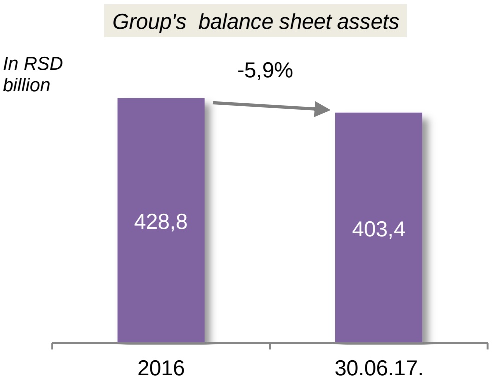
Macroeconomic indicators	SERBIA	MONTENEGRO	REPUBLIKA SRPSKA
Gross domestic product	EUR 7,86 billion	EUR 748 mil[2]	EUR 4,87 billion
GDP trends	+1,2%[3]	+3,2%	+3,6%[4]
Consumer price index (2017/2016)	+3,5%[5]	+2,7%[6]	+0,6%[7]
Trend in banking sector assets	-1,0%[8]	+10,4%	-0,01%[9]
Share of banking sector assets in GDP	77%[10]	508%	80%[11]
Industrial production (I-VI 2017 / I-VI 2016)	+2,1%	-10,9%[12]	-7,5%
Banking sector NPL, or non-performing assets	16,1[13]%	9,9%[14]	11,74%[15]
Unemployment rate	14,6%[16]	22,9%	24,8%[17]

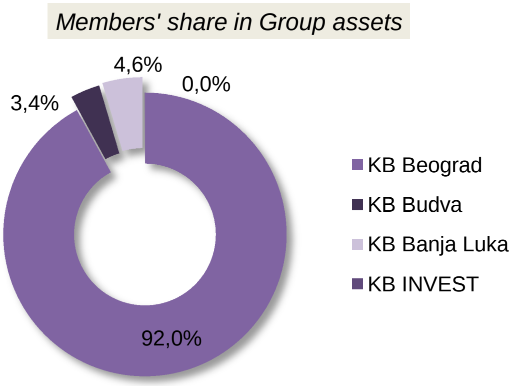
3.2 Group's Performance

(in RSD thousand)

DESCRIPTION	30.06.2017	2016	2015	2014	2013
GROUP'S BALANCE SHEET ASSETS	403.419.016	428.827.608	416.461.558	430.702.109	385.261.548
Komercijalna banka a.d. Beograd	371.225.162	397.222.810	387.378.734	400.168.484	357.506.995
Komercijalna banka a.d. Budva	13.658.911	13.212.323	12.497.800	13.939.442	12.251.085
Komercijalna banka a.d.Banja Luka	18.380.811	18.385.992	16.469.869	16.484.378	15.397.653
KomBank INVEST a.d. Beograd	154.132	6.483	115.155	109.805	105.815

2 Estimate
3 Estimate Q1 2017/Q1 2016
4 Balance as of 31.12.2016
5 May 2017 compared to May 2016
6 June 2017/june2016
7 Balance as of 31.05.2017
8 Q1 2017compared to the end of 2016
9 Data relating to 31.03.2017 in comparison to 31.12.2016
10 Balance as of 31.12.2016
11 Balance as of 31.12.2016.
12 June 2017/june2016
13 May 2017- Macroeconomic trends in Serbia, July 2017
14 Preliminary data
15 Balance as of 31.03.2017
16 End of Q1 2017
17 Balance as of 31.12.2016





The Group's balance sheet assets at the end of the first half 2017 is reduced in comparison to the end of the last year (5,9%). Share of assets of the Parent Bank in total balance sheet assets of the Group is still predominant (Group members account for 8,0% of total consolidated assets of the Group).

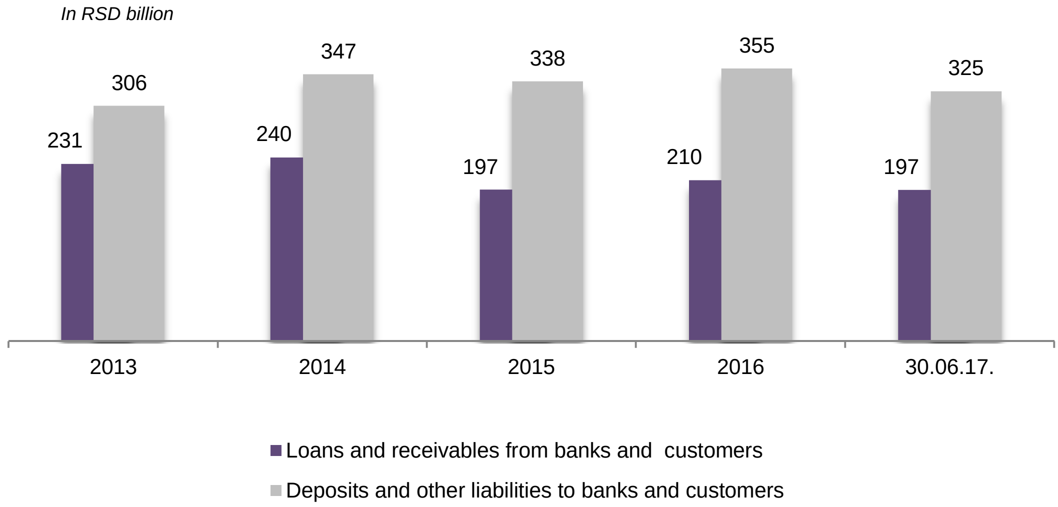
Loans and liabilities of banks and customers as at 30.06.2017 by Group members

(in RSD thousand)

DESCRIPTION	30.06.2017	2016	2015	2014	2013
LOANS TO AND RECEIVABLES FROM BANKS AND CUSTOMERS	197.014.419	209.617.689	197.271.553	239.562.636	231.234.880
Growth percentage	(6,0%)	6,3%	(17,7%)	3,6%	6,2%
Komercijalna banka a.d. Beograd	176.624.313	190.830.293	179.006.392	219.502.491	212.141.510
Komercijalna banka a.d. Budva	7.837.332	6.351.466	7.271.135	7.687.740	7.630.520
Komercijalna banka a.d. Banja Luka	12.552.774	12.435.930	10.994.026	12.372.405	11.462.850
KomBank INVEST a.d. Beograd	-	-	-	-	-
DEPOSITS AND LIABILITIES TO BANKS AND CUSTOMERS	325.245.840	354.958.478	338.103.348	347.341.972	306.302.650
Growth percentage	(8,4%)	5,0%	(2,7%)	13,4%	13,5%
Komercijalna banka a.d. Beograd	299.690.521	329.732.740	316.177.501	325.559.503	286.908.736
Komercijalna banka a.d. Budva	11.313.518	10.982.889	9.918.868	9.987.090	8.134.122
Komercijalna banka a.d. Banja Luka	14.241.801	14.242.849	12.006.979	11.795.379	11.259.792
KomBank INVEST a.d. Beograd	-	-	-	-	-

In total loans and receivables from banks and customers, the share of the Parent Bank as of 30.06.2017 stood at 89,7%, while a share of KB Budva was 4,0%, and the share of KB Banja Luka 6,4%. The Parent Bank also has a dominant share in deposits and other liabilities to banks and other customers of 92,1%, KB Budva accounts for 3,5%, and KB Banja Luka for 4,4%.

Trends in Group's loans and deposits



Total loans and receivables from banks and other Group's customers, at the end of the first half 2017, are reduced in comparison to the end of the last year by 6,0%, while total deposits and liabilities to banks and other customers are reduced by 8,4%.

3.3 Consolidated Balance Sheet

The percentage of total consolidated balance sheet positions is not material and it accounts for 1,5% of balance sheet total on the aggregate Balance Sheet.

In conducted consolidation process the following have been fully consolidated:

- The Parent Bank's equity holdings in subsidiary banks and the Company, at the initial exchange rate applicable to the holding (RSD 5.480,9 million),
- Internal receivables and liabilities among Group members (RSD 638,2 million),
- Internal income and expenses among all Group members (net income of RSD 10,5 million).

ASSETS

(in RSD thousand)

Members of Komercijalna banka Group	Aggregate assets	Adjustment for consolidation	AMOUNT of asset consolidation	Consolidated assets	% share
1	2	3	4	5=2+3-4	6
Komercijalna banka a.d. Beograd	373.998.539	2.869.029	5.642.406	371.225.162	92,02
Komercijalna banka a.d. Budva	13.988.700	-	329.789	13.658.911	3,39
Komercijalna banka a.d. Banja Luka	18.527.668	-	146.857	18.380.811	4,56
KomBank INVEST a.d. Beograd	154.209	-	77	154.132	0,04
TOTAL	406.669.116	2.869.029	6.119.129	403.419.016	100,00

LIABILITIES

Members of Komercijalna banka Group	Aggregate liabilities	Adjustment for consolidation	AMOUNT of liability consolidation	Consolidated liabilities	% share
1	2	3	4	5=2+3-4	6
Komercijalna banka a.d. Beograd	373.998.539	2.869.029	(554.158)	377.421.726	93,56
Komercijalna banka a.d. Budva	13.988.700	-	2.669.144	11.319.556	2,81
Komercijalna banka a.d. Banja Luka	18.527.668	-	3.863.982	14.663.686	3,63
KomBank INVEST a.d. Beograd	154.209	-	140.161	14.048	-
TOTAL	406.669.116	2.869.029	6.119.129	403.419.016	100,00

The share of subsidiaries in the total potential of the Group is not material, as, on 30.06.2017 (2016: 7,4%), it amounts to 8,0% of the Group's consolidated assets. Share in KB Group's liabilities is lower and it stands at 6,4% (2016: 5,9%), since the members' equity invested by the Parent Bank is not taken into account for consolidation process.

Similar as in earlier years, the Parent Bank's position is dominant in the structure of all balance sheet positions of the Group, with share of 92,0% in the structure of the consolidated assets.

Group's consolidated assets as at 30 June 2017

(*in RSD thousand)*

No.	BALANCE SHEET POSITION	30.06.2017	31.12.2016	INDICES	SHARE 30.06.2017.
1	2	3	4	5=(3:4)*100	6
	ASSETS				
1.	Cash and assets held with the central bank	53.311.465	61.919.102	86,1	13,2
2.	Held-for-trading financial assets presented at fair value in Income Statement	2.596.681	247.862	1047,6	0,6
3.	Financial assets available for sale	132.446.840	139.808.210	94,7	32,8
4.	Financial assets held to maturity	241.276	368.999	65,4	0,1
5.	Loans and receivables from banks and other financial organisations	36.073.923	43.216.681	83,5	8,9
6.	Loans and receivables from customers	160.940.496	166.401.008	96,7	39,9
7.	Intangible assets	357.938	394.546	90,7	0,1
8.	Property, plant and equipment	6.107.536	6.251.187	97,7	1,5
9.	Investment properties	2.488.447	2.608.051	95,4	0,6
10.	Current tax assets	13.130	7.283	180,3	0,0
11.	Deferred tax assets	1.769.488	-	-	0,4
12.	Available- for-sale non-current assets and assets from discontinued operations	353.527	349.523	101,1	0,1
13.	Other assets	6.718.269	7.255.156	92,6	1,7
	TOTAL ASSETS (from 1 to 13)	**403.419.016**	**428.827.608**	94,1	100,0

As at 30 June 2017, the highest share in the Group's balance sheet assets was that of loans and receivables from customers (39,9%); the same have downward trend in comparison to the end of 2016 (-3,3%). Share of loans and receivables from banks and other financial organisations stands at 8,9% of the balance sheet assets and the same also recorded a decline of 16,5%. Investment in securities available for sale was also an important asset position (32,8%) and has decreased in the first half of 2017 (-5,3%). Cash and assets held with the central bank accounted for 13,2% in total assets of the Group and have been lower than in the previous reporting period (-13,9%).

Group's consolidated liabilities as at 30 June 2017

(*in RSD thousand*)

No.	BALANCE SHEET POSITION	30.06.2017	31.12.2016	INDICES	SHARE 30.06.2017.
1	2	3	4	5=(3:4)*100	6
	LIABILITIES				
1.	Deposits and other liabilities to banks, other financial organisations and the central bank	7.860.534	9.822.519	80,0	1,9
2.	Deposits and other liabilities to other customers	317.385.306	345.135.959	92,0	78,7
3.	Subordinated liabilities	6.050.242	6.178.390	97,9	1,5
4.	Provisions	1.433.091	2.021.507	70,9	0,4
5.	Current tax liabilities	-	9.027	-	-
6.	Deferred tax liabilities	606.317	53.457	1134,2	0,2
7.	Other liabilities	5.484.251	6.314.329	86,9	1,4
8.	**TOTAL LIABILITIES (items 1 to 7)**	**338.819.741**	**369.535.188**	91,7	84,0
	CAPITAL				
9.	Share capital	40.034.550	40.034.550	100,0	9,9
10.	Profit	6.965.551	545.985	1275,8	1,7
11.	Loss	-	(7.048.674)	-	-
12.	Reserves	17.599.108	25.760.493	68,3	4,4
13.	Interest without controlling rights	66	66	100,0	-
14.	**TOTAL CAPITAL (items 9 to 13)**	**64.599.275**	**59.292.420**	109,0	16,0
15.	**TOTAL LIABILITIES (8.+14.)**	**403.419.016**	**428.827.608**	94,1	100,0

On the liability side, deposits and other liabilities to other customers were predominant having a share of 78,7% in Group's total liabilities. Deposits and other liabilities to other customers have decreased relative to the end of the last year by 8,0%.

Total capital accounted for 16,0% in Group's total liabilities. The same is higher than at the end of 2016 (9,0%), primarily due to profit generated in the Parent Bank, and also in subsidiaries.

Consolidated Balance Sheet as at 30 June 2017 – members of the Banking Group

(*in RSD thousand*)

	DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	GROUP TOTAL
1	2	3	4	5	6	7
	Position / ASSETS					
1	Cash and assets held with the central bank	48.163.638	1.755.512	3.392.315	-	53.311.465
2	Investment in securities	130.691.725	2.658.249	1.782.977	151.846	135.284.797
3	Loans to and receivables from banks and other fin. org.	34.761.626	752.869	559.428	-	36.073.923
4	Loans to and receivables from customers	141.862.687	7.084.463	11.993.346	-	160.940.496
5	Intangible assets	323.055	8.873	26.010	-	357.938
6	Property, plant and equipment	5.718.325	329.198	59.977	36	6.107.536
7	Investment property	2.084.645	116.317	287.485	-	2.488.447
8	Other assets	7.619.461	953.430	279.273	2.250	8.854.414
9	**TOTAL ASSETS (1 to 8)**	**371.225.162**	**13.658.911**	**18.380.811**	**154.132**	**403.419.016**
	Position / LIABILITIES					
10	Deposits and other liabilities to banks and other financial org.	5.178.858	200.618	2.481.058	-	7.860.534
11	Deposits and other liabilities to other customers	294.511.663	11.112.900	11.760.743	-	317.385.306
12	Subordinated liabilities	6.050.242	-	-	-	6.050.242
13	Provisions	1.241.184	168.906	22.203	798	1.433.091
14	Other liabilities	5.870.599	86.515	131.853	1.601	6.090.568
15	**TOTAL LIABILITIES (10 to 14)**	**312.852.546**	**11.568.939**	**14.395.857**	**2.399**	**338.819.741**
16	Total capital	64.569.180	(249.383)	267.829	11.649	64.599.275
17	**TOTAL LIABILITIES (15+16)**	**377.421.726**	**11.319.556**	**14.663.686**	**14.048**	**403.419.016**
I	Assets by segments	371.225.162	13.658.911	18.380.811	154.132	403.419.016
-	***Structure of adjusted positions***					
-	Consolidated cash	-	(385)	(2.243)	(76)	(2.704)
-	Consolidated deposits made	(4.588)	(329.404)	(144.614)	-	(478.606)
-	Consolidated loans granted	(155.376)	-	-	-	(155.376)
-	Consolidated interest receivable	(1.334)	-	-	(1)	(1.335)
-	Consolidated fee and other receivables	(220)	-	-	-	(220)
-	Consolidated equity holdings	(5.480.888)	-	-	-	(5.480.888)
-	Impairment of equity holdings	2.869.029	-			2.869.029
II	**Assets on individual BS**	**373.998.539**	**13.988.700**	**18.527.668**	**154.209**	**406.669.116**
I	Liabilities by segments	377.421.726	11.319.556	14.663.686	14.048	403.419.016
-	***Structure of adjusted positions***					
-	Consolidated deposits	(476.722)	(4.588)	-	-	(481.310)
-	Consolidated loans received	-	-	(155.376)	-	(155.376)
-	Consolidated interest payable	(1)	-	(1.334)	-	(1.335)
-	Consolidated fee and other payables	-	(59)	-	(161)	(220)
-	Consolidated equity	1.675.424	(3.309.040)	(3.707.272)	(140.000)	(5.480.888)
-	Adjustment of equity holdings impairment expense	2.869.029	-	-	-	2.869.029
-	Intra-group dividends	(644.543)	644.543	-	-	-
II	**Liabilities on individual BS**	**373.998.539**	**13.988.700**	**18.527.668**	**154.209**	**406.669.116**
III	Balance sheet total in original currency	373.998.539 RSD K	115.754 EUR K	299.854 BAM K	154.209 RSD K	

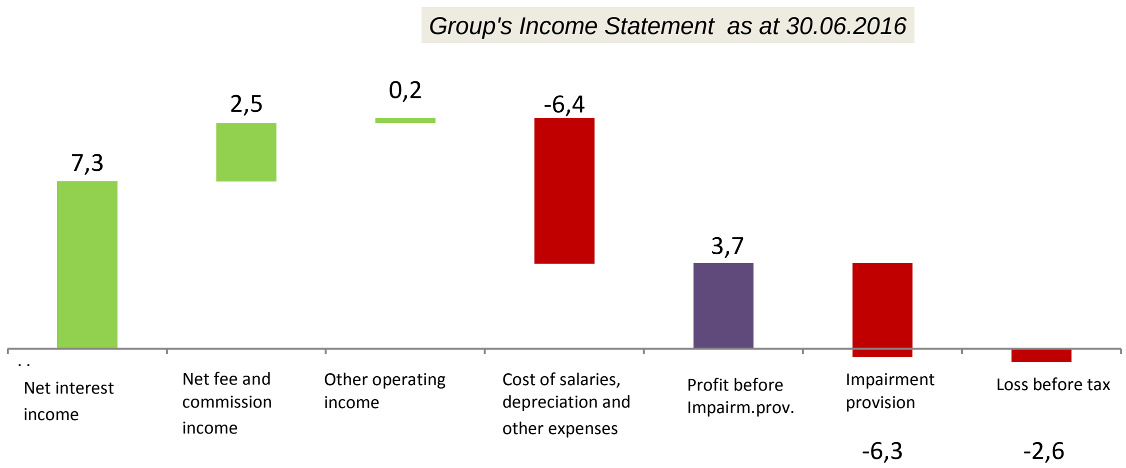
3.4 Consolidated Income Statement

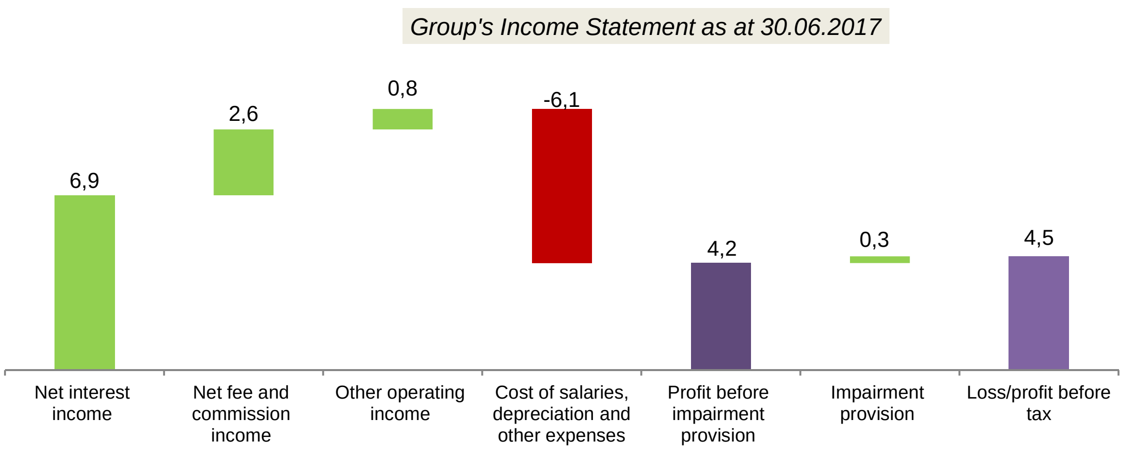
In the consolidation process it is necessary to exclude all positions on the individual Income Statements that stem from intra-group transactions, including: interest, fees, commissions and other income/expense.

Consolidated Income Statement for the period 1 January – 30 June 2017

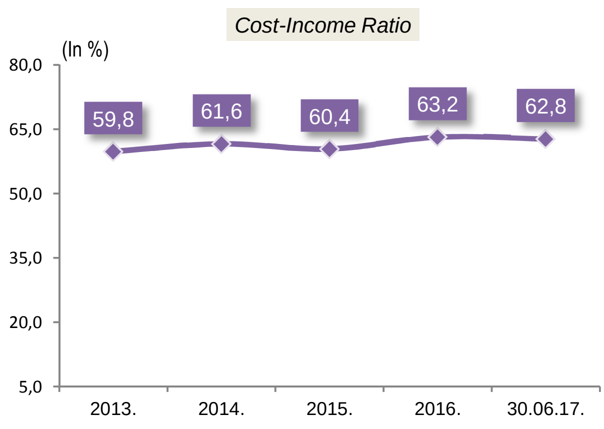
(*in RSD thousand)*

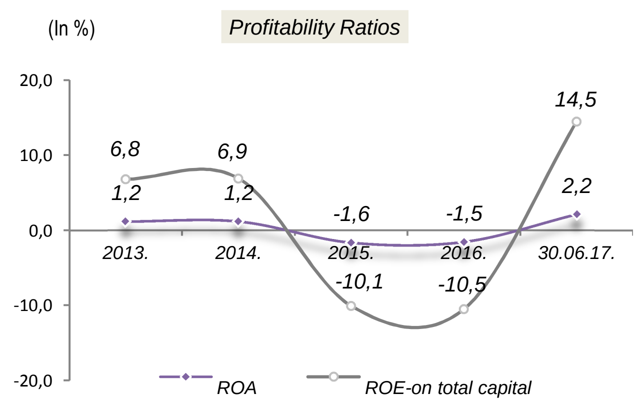
No.	INCOME STATEMENT POSITION	30.06.2017	30.06.2016.	INDICES (3:4)*100
1	2	3	4	5
	INCOME AND EXPENSE			
1.1.	Interest income	7.908.793	9.247.439	85,5
1.2.	Interest expenses	(1.006.934)	(1.958.989)	51,4
1.	**Net interest income**	**6.901.859**	**7.288.450**	94,7
2.1.	Fee and commission income	3.407.989	3.145.863	108,3
2.2.	Fee and commission expenses	(794.976)	(597.326)	133,1
2.	**Net fee and commission income**	**2.613.013**	**2.548.537**	102,5
3.	Net income from held-for-trading financial assets	41.981	31.493	133,3
4.	Net income from available-for-sale financial assets	44.429	14.585	304,6
5.	Net income / expense from exchange differences and effects of agreed currency clause	(10.552)	13.537	-
6.	Net income from investment in subsidiaries and joint ventures	306	-	-
7.	Other operating income	726.245	163.819	443,3
8.	Net expense/income from impairment of financial assets and credit risk-bearing off-balance sheet items	265.192	(6.397.804)	-
9.	**TOTAL NET OPERATING INCOME**	**10.582.473**	**3.662.617**	288,9
10.	Costs of salaries, allowances and other personal expenses	(2.520.905)	(2.444.690)	103,1
11.	Depreciation costs	(327.779)	(417.867)	78,4
12.	Other expenses	(3.246.437)	(3.490.426)	93,0
13.	**LOSS / PROFIT BEFORE TAX (1. to 12.)**	**4.487.352**	**(2.690.366)**	-
14.	Income tax			
15.	Deferred tax gain	1.235.813	-	-
16.	Deferred tax loss			
17.	**LOSS / PROFIT AFTER TAX (13. to 16.)**	**5.723.165**	**(2.690.366)**	-
18.	Net profit/loss attributable to minority investors			
19.	**Net profit/loss attributable to parent entity**	**5.723.165**	**(2.690.366)**	





In the last two reporting periods the Group reported the loss before tax as a result of the booked impairments of financial assets and credit risk-bearing off-balance sheet items. Interest income during the first half of 2017 is decreased relative to the same period of 2016 by RSD 1.338,6 million (-14,5%), as are interest expenses that are lower by RSD 952,0 million (-48,6%). The above resulted in slight reduction of net interest income by RSD 386,6 million (-5,3%) at the end of June 2017. Net fee and commission income is slightly increased in comparison to the same period last year, by RSD 64,5 million (+2,5%). Other operating income is higher than in the same period last year by 343,3% (RSD 562,4 million). Costs of salaries, depreciation and other expenses are decreased by RSD 257,9 million (-4,1%). As at 30 June 2017, the Group generated the net income from impairment of financial assets and credit risk-bearing off-balance sheet items in the amount of RSD 265,2 million, unlike the same period in 2016, when the expense of RSD 6.397,8 million was recorded.





Consolidated Income Statement by Group Members for the Period 1 January to 30 June 2017

(in RSD thousand)

	DESCRIPTION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	GROUP TOTAL
1	2	3	4	5	6	7
1.	Interest income	7.274.735	281.028	352.943	87	7.908.793
2.	Interest expenses	(887.840)	(39.007)	(80.087)	-	(1.006.934)
3.	**Net interest income**	6.386.895	242.021	272.856	87	6.901.859
4.	Fee income	3.189.947	87.543	119.101	11.398	3.407.989
5.	Fee expenses	(729.555)	(22.089)	(43.187)	(145)	(794.976)
6.	**Net fee income**	2.460.392	65.454	75.914	11.253	2.613.013
7.	Net result of investment in securities	83.369	543	-	2.498	86.410
8.	Net result of loan impairment	227.327	33.446	4.419	-	265.192
9.	Other operating income	680.905	19.223	15.857	14	715.999
I	**TOTAL NET OPERATING INCOME (3+6+7+8+9)**	9.838.888	360.687	369.046	13.852	10.582.473
10.	Costs of salaries, allowances and other personal expenses	(2.220.023)	(134.864)	(159.024)	(6.994)	(2.520.905)
11.	Other operating expenses	(3.231.868)	(150.576)	(188.682)	(3.090)	(3.574.216)
12.	Operating expenses (10+11)	(5.451.891)	(285.440)	(347.706)	(10.084)	(6.095.121)
II	**REVENUE/EXPENSE BY SEGMENTS (3+6+7+8+9+12)**	**4.386.997**	**75.247**	**21.340**	**3.768**	**4.487.352**
II	**Revenue/expense by segments**	4.386.997	75.247	21.340	3.768	4.487.352
-	***Structure of adjusted positions***					
-	Consolidated interest, net	(1.939)	-	2.041	(102)	-
-	Consolidated fees, net	(2.386)	682	761	943	-
-	Exchange differences in intra-group transactions	(28.840)	14.611	3.701	-	(10.528)
II	**Revenue/expense on individual IS**	**4.420.162**	**59.954**	**14.837**	**2.927**	**4.497.880**
III	**Revenue/expense in original currency before tax**	RSD 4.420.162 thousand	EUR 486 thousand	BAM 235 thousand	RSD 2.927 thousand	

4. Environmental Investment

By adopting the Environmental and Social Policy at Group level, the group set out standards for identifying risks and managing environmental and social risks in the loan granting and monitoring process. The Group is also developing environmental activities and human and labour rights protection by applying best practices in sustainable finance. Internal instruments also define the procedure for addressing and replying to complaints relating to direct or indirect environmental and social impact of operations. Under energy efficiency and renewable energy development facilities, the Group grants loans for green energy which reduces carbon emissions.

Overview of special-purpose facilities:

EBRD	EUR 10,000,000 (finance for energy efficiency and renewable energy projects in the private sector / small and medium-sized enterprises and local self-governments)

By categorising loans based on the level of their environmental and social risks, the Group assesses the risk of adverse impact of the financed activities on the environment. Furthermore, the Group continually monitors its clients for any extraordinary events that could adversely impact the environment, health or safety or the community in general and regularly reports its findings to the Bank’s management bodies and shareholders.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group refuses to provide finance to clients whose main business activity is associated with the manufacturing of or trading in weapons and ammunition, radioactive materials and other technologies that may adversely impact the environment, thus ensuring compliance with the standards of good international practice in this field. In addition, financing of clients whose operations include production of and trading in alcoholic drinks or gambling is subject to a limit system.

5. Significant Events after the End of the Financial Year

The Parent Bank had a two regular Shareholders’ Meeting from 1 January 2017 to the end of June 2017. The Meeting was held on 25 January 2017 and its outcomes were as follows:

- The Shareholders’ Meeting passed the Decision to sell the shares of the following legal entities included in the Parent Bank’s portfolio: Jubmes Banka AD Beograd, Politika AD Beograd, Kompanija Dunav osiguranje AD Beograd, Beogradska berza AD Beograd and Tržište novca AD Beograd.
- The Shareholders’ Meeting adopted the Information in connection with Article 77 of the Law on Banks and the Report under Article 78 of the Law on Banks.

The second session of the General Meeting of Shareholders was held on April 27, 2017, adopting the following decisions:

- Decision on Adoption of the Strategy and Business Plan of the Bank for the period 2017-2019,
- KB's Annual Business Plan for 2016 was adopted, as well as the Report and Opinion of the External Auditor on Performed Audit of Regular Financial Statements of Komercijalna Banka ad Beograd for 2016:
    - o Decision on Adopting the Annual Business Plan of Komercijalna Banka ad Beograd and regular financial reports with external auditor's opinion for 2016;
    - o Decision on Allocation of a Portion of Non-Allocated Profit from Previous Years to Pay Dividends on Preferred Shares of the Bank;
    - o Decision on Covering Bank's Loss from 2016.
- Decision on Adoption of the Annual Report on Operation and Consolidated Financial Reports of Komercijalna Banka ad Beograd Banking Group, with Opinion of External Auditor for 2016,
- Decision on Amendments and Supplements of Komercijalna Banka AD Beograd Articles of Association.

By the end of June (27.06.2017), a new session of KB's General Meeting of Shareholders was scheduled to be held on July 27, 2017.

Other important events upon the end of the business year were disclosed in the Notes to Consolidated Financial Statements – Note 11.

6. Planned Future Development

Operating strategies and plans for the next period are adopted at the level of Group members.[18]

Komercijalna Banka's Beograd, the mother bank's strategic goals in the coming period are as follows:

- Development of digital banking - more economical distribution channels:
- Improving sales on a digital channel (introduction of loan products and automation of the process);
- Increased bank's efficiency and customers' satisfaction,
- Control over business expenses, OPEX in particular:
- KB is planning the entire spectre of measures in order to control the level of operating costs, in order to improve the overall efficiency in this way;
- Regionalization of market space:
- Strengthening KB's presence in the regions with high development potential (Vojvodina, Beograd);
- Customer base:
- Change in the customer structure attracting clients with the above average income and younger population e;
- Change in loan structure directed to retail clients of greater purchasing power, more extensive lending to agriculture and micro clients;
- Improvement of the existing and introducing new products:
- Development and improvement of retail loan products;
- Development and improvement of payment cards functionalities by adding financial benefits for the clients;

18 Within this point of the report are presented the unchanged parts taken from the individual Group Business Strategies and Plans

- Portfolio restructuring;
- Focus on the growth of non-interest bearing income – response to the challenges coming from the environment of lowering and falling interest rates.

Retail

- Increasing number of active clients, primarily by relying on the current customer database;
- Active change in the structure of the Bank's clients targeting the younger population and those with a higher standard and better creditworthiness;
- Continuous focus on the cross selling;
- Increased customers' loyalty and revenue per client.

Loan activity will continue to be dominated by cash and mortgage loans in the coming period. The Bank's activities will be focused on retaining existing clients with the full use of their credit potential, but also on attracting new quality clients from competitors.

The Bank will strive to direct clients to use modern communication channels - Internet and electronic banking, with the aim of further development of digital business.
In the following period, the Bank's goal is to improve the structure of clients, aiming to increase the share of employees and pensioners. The aim is to expand the client base with regular monthly income, which can be offered a wide range of banking products (loans, cards, web bank...).

Corporate Operations

- Enhanced use of an existing customer base;
- Increased efficiency in the process of granting loans;
- Growth or the balance sheet and off-balance sheet portfolio together with structure change;
- Maintaining profitability;
- Introduction of new products.

KB's focus in the forthcoming period will be to better use the existing base of corporate clients, strengthen lending activities in the SME segment with the tendency of increasing the participation in the corporate portfolio, constant monitoring of market movements and price adjustment, introduction of new credit products (inclusion of the Bank in project financing), centralization of the Middle Office in the function of risk management.
We also have planned to implement proactive approach and to re-attempt to establish relationships with a group of clients that do not have credit needs at the moment, or solely deal with other banks. The development of the model of project financing is also being planned, bearing in mind the new legal solutions related to accelerating the issuance of construction permits, the existence of demand and the lack of an exclusive business space and new apartments that would have an adequate structure and be better located, as well as the fact that real estate prices are relatively stable.

Deposit Potential

- Foreign currency retail savings remain the dominant funding source;
- Active management of funds from abroad (credit lines and subordinated debt).

The most important source will still be the retail foreign currency savings. The Bank's strategic orientation is to continue to be the leader in this segment and maintain the image of the largest domestic bank, while at the same time trying to optimize the price and structure of this source. Bearing in mind high credit rating of the Bank, there are also funds from credit lines and funds that can be collected in the form of subordinated debt. The Bank will use these sources of financing according to need.

Network Development

- Network of business centres, instead of branch offices; the bank will organize the network through a small number of business centres;
- Centralization of back office activities; decrease in management structure; centralized support to operation of branches;
- Improvement of efficiency of the loan process and credit committees' work;
- Optimization of individual business processes - optimization of procedures and automation of processes that lead to shortening the process duration and time consuming of employees;
- Standardization of branches.

The following objectives were defined as strategic for **Komercijalna Banka Banja Luka** in the coming period:

1. Maintenance and improvement of the status of a stable financial institution;
2. Growth of new databases with continuous maintenance of existing depositors;
3. Suitability and efficiency of the process aiming to identify and monitor the initial level of exposure to risks, or risk associated with already approved loan exposures, which will enable the structure of portfolio with controlled risk;
4. Combining the positions of liabilities in order to achieve efficient liquidity and profitability of the bank's operations;
5. Increase of loan portfolio in the corporate and retail segment, as well as further matching of lending and funding;
6. Expansion of the business network;
7. Unification at the level of the parent bank group in terms of new products and unification of business conditions.

In the coming period, goals in the domain or *retail* operations are to be:

- Improvement of the Bank's position on the market in the domain of lending and retention of the Bank's position in the field of deposit business;
- Introduction of product package for retail clients, allowing clients to use several different products of the Bank at lower prices within the selected package, while the Bank would, on the other hand, increase cross-selling of products;
- Designing the conditions for the sale of products (housing and non-purpose loans, credit cards, electronic services) in order to create preconditions for the growth of sales during a certain period of time;
- Improving the functionality of existing and introducing new products at the group level through technologically enhanced, modern business, which will be carried out by analysis and complied with the needs and capabilities of clients;
- Active approach to tracking individual loans depending on the initial risk assessment of initial sales;
- Stressing the proactive sales of products by employees in the Division and the Bank's business network;
- Enhanced cooperation with Marketing, with the aim of adequate and timely promotion of products;
- Education of employees;
- Improvement of business efficiency by improving policies, procedures and guidelines.

In addition to the activities for attracting financial support to business entities that will suffer maturities of large amounts in volume in 2017, the activity of the Corporate Division will be based on increasing the number of clients and increasing the loan portfolio through greater diversification of loans in smaller amounts. The target segment will be clients from the manufacturing, trade and service industries. Intensified sales activity has been planned to focus on the segment of micro, small and medium-sized businesses. It is expected that this group of clients will have growth potential in the coming period, which may result in additional lending, so special attention should be paid to maintaining quality and efficient support for clients who, despite all the difficulties in the business environment, managed to maintain business activity in the previous period.

Business policy in the segment of *deposit management* has been focused achieving effectiveness in this part of the business, with planned activities aimed at:

- Achieving the effectiveness of holding funds, considering planned sizes of the loan amounts and thereby achieving planned profitability;
- The projected amounts of deposits are determined by the development of the real sector, excess funds from non-banking financial sector and the plan for the growth of the bank's investments;
- In the segment of short-term deposits, the increase in the share of stable a-vista deposits as cheaper funding sources, which will affect the reduction in the price of funding, and on the other hand, contribute to the dispersion of the concentration of time deposits;
- Reducing the concentration of deposits with the continuation of the downward trend in the cost of deposits of legal entities;
- Quarterly monitoring of the trends in borrowing interest rates on the market providing timely requests for correction of borrowing interest rates, compared to the competition;
- Deposits of public institutions and administration, commercial clients in the field of telecommunications, trade, non-banking financial institutions will remain the most important source of deposits.

Key operating objectives of **Komercijalna Banka Budva** in terms of the future planning period are:

- Stable and sustainable business development.
- Continuous improvement and targeted diversification of portfolios.
- Continuous strengthening of market share.
- Active solving the issues related to the acquired assets and NPLs.
- Sustainable profitability.
- Increased network efficiency through reorganization of operations.
- Strengthening the brand.

For the period 2017-2019, KB Budva has planned the following:

- Preparation of action plans that include a time component of the sale of immovable property acquired by aligning the results of negotiations, making a decision by the decision-makers, preparing legal documentation (approval by fiduciary debtors, purchase agreements requiring the Bank's approval as owner of immovable property, etc.), advertising the sale of real estate in accordance with the Law on Property Relations, etc.,
- Active communication with clients in the framework of the acquired assets in order to collect the position of the acquired assets through loan restructuring, while providing acceptable mortgage collateral,
- Collection of assets acquired through the providing the approval of fiduciary debtors, which would result in the Bank being able to freely advertise and sell the acquired real estate,
- Engaging of Komercijalna Banka, which is in direct communication with clients and third parties in order to offer and sell the position of the acquired assets. The Bank plans to regularly update the data on its website and consider forming an appropriate catalogue of acquired real estate that would be available through real estate agencies etc.,

- Reconsidering the engagement of law firms, given that the results achieved so far are not at the level expected to justify the high costs of their engagement, especially due to the organizational strengthening of the Department for Managing and Restructuring Risk Loans ("Workout Department") and finding an adequate solution for the position of the Manager of Acquired Assets.

Retail Operations
The Action Plan of the Retail Division envisages a series of activities aimed at eliminating barriers and improving the conditions for better business and achievement of the planned objectives in the period 2017-2019:

- Change of reference lists' names, the principles and conditions of being the member of the lists, as well as the lists' compliance with the product catalogue;
- Improving and simplifying product catalogues, as well as transferring decisions about catalogue changes to the level of the Bank of BoD level, due to efficiency, speed and competition;
- Delegating decision-making powers to the level of the Retail Division in terms of regular and extraordinary approvals up to a certain level, in order to improve competitiveness and efficiency;
- Simplification and improvement of the credit process for the purpose of acceleration, efficiency and competitiveness,
- Changing the procedures and methodology of the lending process or making a decision for the possibility of regular and extraordinary approvals while the methodologies and procedures are not adapted to market conditions,
- Distribution of credit portfolios for all employed sales specialists, who will take care of both sales and collection and whose performance will be transparent and visible through weekly reports,
- A model of a bonus scheme that will track the individual effects of the sales specialists through the above reports,
- Decision-making speed and significantly shorter deadlines for the operationalization of all related divisions, units and bodies, because the meaning of effective decision-making in the Retail Division is losing sense;
- Creating appropriate actions aimed at targeted demand,
- Adaptation and reconstruction of branch offices,
- Relocation of branch offices,
- Internal training;
- Activating micro-credit programs: each employee will be responsible for his portfolio, with clear sales and collection goals to be monitored through weekly reports,
- Expansion of the sales network through the opening of lending offices, i.e. sales specialists on the field, with minimal investments in areas that are acceptable and attractive for the Bank from a commercial and income generating point of view - beneficial way of the bank's development orientation, which is necessary in the situation of presenting negative business results and constant closing of 6 branches in a short time period.

Corporate Loans
In accordance with the market conditions, existing and expected demand, foundation for growth of the loan portfolio next year will be in loan potential of micro, small and medium enterprises (with annual income 1.0 – 20 million euros), this to be achieved through smaller amount-loans to larger number of clients, in order to decrease credit risk and diversify loan portfolio, as well as expanding customer base with creditworthy clients.
Corporate lending orientation in the coming period will be the following businesses:

- Tourism and provision of related services;
- Trade and services;
- Production and manufacturing;

- o Construction and
- o Public sector.

Priority products, fundamental for realization of the plant of corporate granted loans' growth, are the following:

- o Loans and investments for tourist purposes;
- o Loans for working capital with a maturity of up to 36 months;
- o Loans for refinancing performing loans granted by other banks with more favourable terms and interest;
- o Designing a product package;
- o Investment loans;
- o Guarantee products and neutral banking services.

Corporate Operations Division will continue to develop and improve its operation through new business approach to the clients, based on constant presence on the market, applying the consultation sales method and assertive communication, with the goal of presenting the bank as strategic partner for long-term business cooperation. The above means that the Corporate Operations Division will keep business communication with corporate clients and those from the SME zone.

As one of the strategic features of the bank's development in the years to come, development of bank-s IT system and introduction of the new banking technologies has been defined.

Key objective, *risk management* of the bank is to minimize the potential losses, and maintaining losses at an acceptable level, bearing in mind the bank's risk profile. Having that in mind, and in accordance with the new challenges and trends in the financial sector, the bank will constantly invest in development and will intensify the activities of the Risk Management Division in the coming three year period, in order to successfully position itself on the market and protect its business from adverse effects.
Long-term objectives of risk management in KB Budva are:

- Development of bank's activities in accordance with its performance potentials and development of the market in order to create competitive edge of the bank,
- Avoiding or minimizing risks in order to maintain the bank's business within the acceptable risk level,
- Minimizing adverse effects on the bank's capital,
- Maintaining the level required for capital adequacy,
- Diversification of risks the bank has been exposed to.

In the coming three-year period the Company **KomBank Invest Belgrade** will strive to improve the level of business, increase the assets of investment funds and expand the investor base of those who invest in investment funds. By increasing the scope of operation, operating risk is also increasing, which imposes the need for the Company to pay particular attention to monitoring and control of business processes that involve increased risk of damage that may be incurred to the Company.

One of more important objectives in the coming period will be to broaden the information on operation of investment funds to as many potential investors as possible, through various forms of distribution channels by using own resources and business channels of Komercijalna Banka.

Revenues from managing investment funds, or their increase in relation to plan may have key impact on the final result of the Company for the coming three-year period and that is why most of the activities the Company is planning to do will be related to affirmation of investing in investment funds and training of the employees in Komercijalna Banka, who will deal with mediation transactions.

Quality management of expenses will be one of the key segments to achieve projected operating results in the forthcoming period. Under quality management we mean optimization of all the existing expenses and activities aiming to decrease or minimize the existing Company's costs.

In the period to come, the Company will for sure invest in modernization of software applications it owns, as well as quality training of the mediators. Training of the mediators means drafting the appropriate expert and marketing materials, which must be at disposal both to the mediators and potential clients.

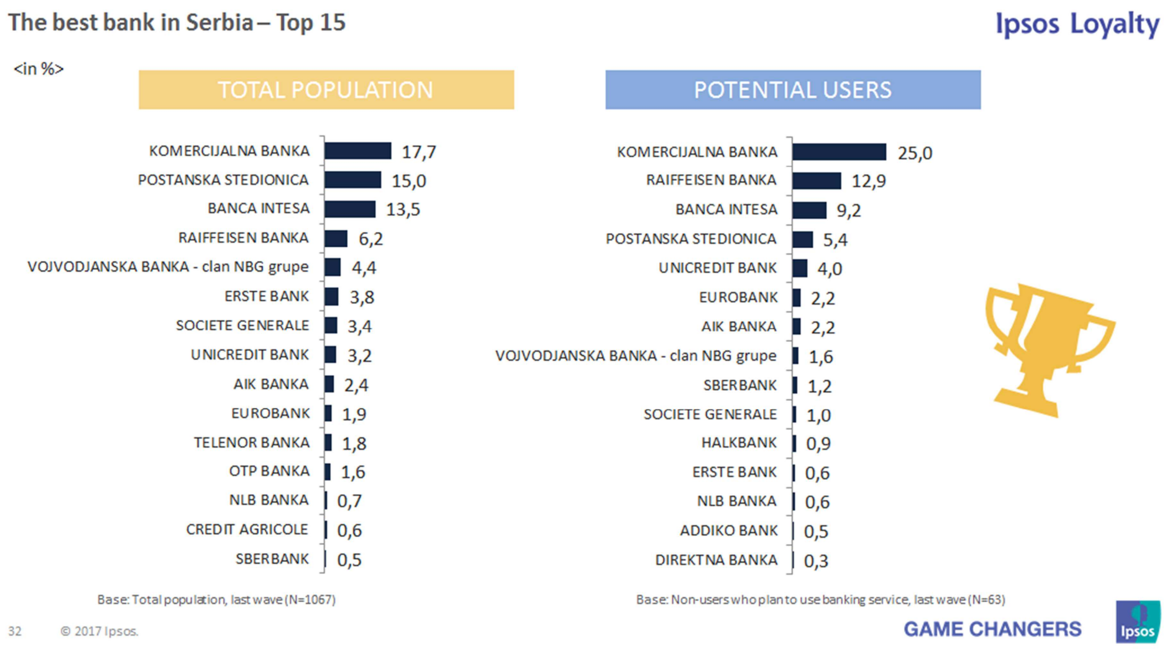
Planned Operating Performance by Banking Group Members in the Coming Three-Year Period

GROUP MEMBERS	KB BELGRADE			KB BUDVA			KB BANJA LUKA			KomBank INVEST		
Plan as %	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Asset growth	*-5,8*	*1,3*	*2,2*	*0,0*	*4,3*	*3,4*	*2,7*	*4,0*	*5,6*	-	-	-
ROE	*7,9*	*10,2*	*11,4*	*1,3*	*3,6*	*5,1*	*1,6*	*3,1*	*3,9*	*4,9*	*9,2*	*11,8*
ROA	*1,2*	*1,6*	*1,8*	*0,2*	*0,6*	*0,9*	*0,4*	*0,7*	*0,9*	*4,8*	*9,0*	*11,5*
CIR	*58,9*	*57,5*	*56,4*	*91,8*	*84,9*	*78,6*	*78,6*	*71,4*	*67,7*	-	-	-
Interest margin on total assets	*3,3*	*3,4*	*3,3*	*4,0*	*4,0*	*4,1*	*4,1*	*4,4*	*4,5*	-	-	-

7. Research and Development

The Banking Group continually monitors developments in the banking product market. In doing so, it uses its own available staff and outsources some activities to specialised third-party public opinion polling agencies.

Market Survey: IPSOS Strategic Marketing, Banking Omnibus, May 2017



The agencies provide customer satisfaction survey data. According to their analyses, the Group is the leader in brand recognisability and service quality.

Survey results inform business decisions, in particular those relating to the development of new products and services and modification of the existing ones.

Through continual monitoring of market signals and the needs of customers and potential clients, the Group's business sectors have offered to customers new types of retail and micro loans and/or improved the existing ones and have developed a wide range of services sufficient for the local market in the segments of e-banking and payment and credit cards.

The results of research and development have been implemented in the Group's Strategy and Business Plan.

8. Redemption of Own Shares and Equity Holdings

Group members have not redeemed own shares in the past financial year and do not intend to redeem own shares in the coming years.

9. Performance of Subsidiaries Before Consolidation

The subsidiaries Komercijalna Banka AD Budva and Komercijalna Banka AD Banja Luka keep their books of account and compile their financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina respectively. KomBank INVEST AD Beograd compiles its financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of compiling consolidated financial statements, individual audited financial statements of subsidiary banks and the Company have been adapted to reflect the required presentation of financial statements under:

- The accounting regulations of the Republic of Serbia,
- Internal instruments of the Parent Bank - Komercijalna Banka a.d., Beograd and
- Relevant IASs and IFRSs.

Individual Balance Sheets of Group members before consolidation as at 30.06.2017

(Stated in RSD thousand)

DESCRIPTION	KB Belgrade	KB Budva	KB Banja Luka	KomBank INVEST
Cash and assets held with central bank	48.163.638	1.755.897	3.394.558	76
Investment in securities	130.691.725	2.658.249	1.782.977	151.846
Loans to and receivables from banks and other financial organisations	34.922.924	1.082.273	704.042	1
Loans to and receivables from customers	141.862.687	7.084.463	11.993.346	-
Investment in subsidiaries	2.611.859	-	-	-
Intangible assets	323.055	8.873	26.010	-
Property, plant and equipment	5.718.325	329.198	59.977	36
Investment properties	2.084.645	116.317	287.485	-
Other assets	7.619.681	953.430	279.273	2.250
TOTAL ASSETS	**373.998.539**	**13.988.700**	**18.527.668**	**154.209**
Deposits and other obligations to banks and other financial organisations	5.655.581	205.206	2.637.768	-
Deposits and other obligations to other customers	294.511.663	11.112.900	11.760.743	-
Subordinated obligations	6.050.242	-	-	-
Provisions	1.241.184	168.906	22.203	798
Other obligations	5.870.599	86.574	131.853	1.762
TOTAL OBLIGATIONS	**313.329.269**	**11.573.586**	**14.552.567**	**2.560**
Total equity	60.669.270	2.415.114	3.975.101	151.649
TOTAL LIABILITIES	**373.998.539**	**13.988.700**	**18.527.668**	**154.209**

Individual Income Statements of Group members before consolidation for the period 01.01 to 30.06.2017

(*Stated in RSD thousand)*

DESCRIPTION	KB Belgrade	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	7.276.776	281.028	352.943	189
Interest expenses	(887.942)	(39.007)	(82.128)	-
Interest gains	**6.388.834**	**242.021**	**270.815**	189
Fee and commission income	3.193.406	88.170	119.547	11.398
Fee and commission expenses	(730.628)	(23.398)	(44.394)	(1.088)
Fee and commission gains	**2.462.778**	**64.772**	**75.153**	**10.310**
Net profit/loss from sale of securities	83.369	543	-	2.498
Net income/expense from exchange differences and currency clause	(17)	(152)	145	(1)
Other operating income	709.762	4.764	12.011	15
Net loss from indirect loan write-offs and provisions	227.327	33.446	4.419	-
Operating and other business expenses	(5.451.891)	(285.440)	(347.706)	(10.084)
LOSS / EARNINGS BEFORE TAX	**4.420.162**	**59.954**	**14.837**	**2.927**
Income tax (current and deferred)	1.235.813	-	-	-
LOSS / EARNINGS AFTER TAX	**5.655.975**	**59.954**	**14.837**	**2.927**

10. Financial Instruments Relevant for Financial Performance Assessment

As of 30.07.2017, the Group had sufficient financial instruments that are essential for an assessment of its financial performance.

Loans and receivables (from customers, banks and other financial organisations) amounted to RSD 197.014,4 million and accounted for 48,8% of total consolidated assets. The most part of this position (39,9% consolidated assets) refers to loans and receivables from customers and amounts to RSD 160.940,5 million at the end of 1H 2017. At the end of 2016 loans and receivables from customers came to RSD 166.401,0 million and accounted for 38,8% of the group’s balance sheet assets.
As of 30.06.2017, loans and receivables from banks and other financial organisations amounted to RSD 36.074,0 million and make 8,9% of the balance sheet assets, while at the end of 2016, these amounted to RSD 43.216,7 million and made 10,1% of the group’s assets.
Financial assets available for sale amounted to RSD 132.446,8 million and accounted for 32,8% of total consolidated assets, and for the most part referred to securities of the Republic of Serbia. At the end of 2016, financial assets available for sale amounted to RSD 139.808,2 million and accounted for 32,6 % of the consolidated BS assets.

On the other hand, deposits were fundamental funding source of dependent banks, while the mother bank also used subordinated debt. Deposits and other liabilities to other customers (including funds raised in the form of credit lines), as of 30.06.2017 amounted to RSD 317.385,3 million and accounted for 78,7% of the consolidated BS liabilities. Deposits and other liabilities to banks, other financial organisations and central bank amounted to RSD 7.860,5 million at the end of 1H 2017, and accounted for 1,9% of the consolidated liabilities. At the end of the previous year, the same position amounted to RSD 9.822,5 million and accounted for 2,3% of the total liabilities of the banking group.

In order to strengthen the capital base of the banking group, the mother bank provided portion of funds in the form of subordinated debt by the IFC. As of 30.06.2017, subordinated liabilities of the group in the Dinar equivalent amounted to RSD 6.050,2 million, which makes 1,5% of the consolidated BS liabilities. Subordinated liabilities of the mother bank fall due on 30.12.2017.

Members of the banking group are well capitalized, with capital adequacy ratio of the group being at 24,0%.

11. Risk Management

The Group has recognised the process of risk management as a key element of managing its operations, as exposure to risk is inherent to all banking operations and needs to be managed through risk identification, assessment, mitigation, monitoring and control and reporting, i.e. through risk limitation, as well as through reporting in accordance with the applicable strategies and policies.
The Group has put in place a comprehensive and reliable risk management system, which includes: risk management strategies, policies and procedures; specific risk management methodologies; an appropriate organisational structure; an effective and efficient system for managing all risks to which it is exposed; a sufficient internal control system; an appropriate information system; and a sufficient internal capital adequacy assessment process. Another integral element of the risk management system is the Group's Recovery Plan, as an early detection mechanism for financial distress situations in which the Group can undertake measures and apply predefined recovery options to prevent an early intervention stage in which the regulatory authority becomes actively involved to improve an already aggravated financial situation.

The Group's Risk Management Strategy and Capital Management Strategy set out the following objectives within the risk management system: minimising adverse effects on financial performance, subject to the defined framework of acceptable risk levels; maintaining the required level of capital adequacy; and development of the Group's activities in accordance with its business potential and market development to achieve.

The Group continually keeps up with the anticipated changes in the regulatory framework and undertakes measures to timely bring its operations in compliance with the new regulations, including implementation of Basel III standards and International Financial Reporting Standard 9 (IFRS 9). As of 30.6.2017, the Group has been applying Basel III standards implemented by the National Bank of Serbia. Through a clearly defined process of launching new products, the Group analyses the impact of all new services and products on future risk exposure to optimise its income and expenses for the assessed risk and to minimise any potential adverse effects on the Group's financial performance.

Details of the Group's risk management objectives and policies are provided in item 4 of the Notes to Consolidated Financial Statements.

Credit risk protection policy

To safeguard against credit risk, the Group applies credit mitigation techniques by observing exposure limits, diversifying its investment and obtaining acceptable collateral as a secondary source of loan recovery. The Group strives to deal only with creditworthy clients, assesses the creditworthiness of every client at the time of loan application and monitors debtors, loans and collateral in order to be able to undertake relevant debt collection activities.

The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis. Collateral is obtained after the signing of an agreement, but before loan disbursement.
The Group adopted internal regulations in order to regulate evaluation of credit security instruments and management of these instruments.

When assessing the collateral value, the group hires authorised appraisers, in order to reduce to the minimum possible extent the potential risk from the unrealistic assessment, and the real-estate, goods, equipment and other movable property pledged must be insured with the insurance company acceptable for the Group, with the insurance policies endorsed in its favour.

To safeguard against changes in the market value of collateral, the appraised value is adjusted for specified impairment percentages according to the type of collateral and location of the property, which are subject to review and revision at least once a year.

The Group pays special attention to monitoring its collateral and obtains new appraisals, as well as additional collateral, for any clients with identified operating problems, as well as for any clients whose collateral coverage ratio has been reduced due to a decline in the value of the obtained collateral.

In its operations, the Group is exposed in particular to the following types of risk:

- Credit risk and related risks;
- Liquidity risk;
- Market risk;
- Interest rate risk on the bank ledger;
- Operational risk;
- Investment risk;
- Exposure risk, and
- Country risk, as well as any other risks that may arise in the Group's operations.

Credit Risk Exposure

Credit risk is the risk of negative effects on the financial result and capital of the Group caused by a debtor's failure to settle its liabilities towards the Group's members. Credit risk is determined by the debtor's creditworthiness, timeliness of his debt repayment to the Bank and the quality of collateral.

The acceptable level of exposure to credit risk for the Group is defined by the Risk Management Strategy and depends on the structure of the Group's portfolio; it limits the negative effects on profit and minimises capital requirements for credit risk, default risk, delivery risk and counterparty risk in order to maintain capital adequacy at an acceptable level. The Group's member banks grant loans to those (corporate and retail) clients whom they consider to be creditworthy based on credit risk analysis and its quantitative

and/or qualitative measurement and assessment. On the other hand, the Group avoids high-risk investments, such as high-profit and high-risk projects, investment funds with a high-risk portfolio etc.
The Group performs analysis/quantitative and qualitative measurement and assessment of credit risk. The process of credit risk measurement is based on measuring the risk level assigned to individual loans according to the internal rating system and in accordance with the applicable regulations. Through monitoring and control of its portfolio as a whole and by specific segments, the Group makes comparisons with earlier periods, identifies trends and determines the underlying causes for changes in credit risk levels. The Group also monitors asset quality indicators (NPL trends, loan loss provision coverage ratio etc.), as well as exposure according to the regulatory and internal limits. The process of loan quality monitoring allows the Group's members to assess potential loss as a result of the risks to which they are exposed and to undertake remedial action.

Exposure to Liquidity Risk

Liquidity risk is the risk of negative effects on the Group's financial performance and capital due to failure of its members to settle its liabilities as they fall due and to obtain liquid assets at short notice without major difficulties. Liquidity risk manifests itself as difficulty in settling the Group's liabilities as they fall due meeting when liquidity reserves and the inability to cover unexpected outflows and other liabilities.
In their operations, the Parent Bank and Group members adhere to the core principles of liquidity by generating a sufficient level of liquid assets to cover their liabilities in the short term, i.e. they adhere to the principle of solvency by forming an optimum structure of own and borrowed sources of finance and forming sufficient liquidity reserves without jeopardising the planned return on equity.
Liquidity risk also manifests itself as inability of the Group to convert certain parts of its assets into liquid assets on short notice. The Group conducts analyses of funding liquidity and market liquidity. The funding aspect of liquidity risk refers to the structure of liabilities and manifests itself as a potentially material increase in the share of unstable sources or short-term sources or their concentration. The funding liquidity risk is in fact the risk that the Group would not be able to settle its obligations when due as a result of withdrawal of unstable funding and inability to obtain new funding. On the other hand, liquidity risk also manifests itself as a deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices.
The Parent Bank and the Group members undertake preventive activities to minimise their exposure to liquidity risk.

Exposure to Market Risks

Market risk is the risk of negative effects on the financial performance and capital of the Group caused by changes in market variables and includes foreign exchange risk relating to all of its operations and the price risk relating to trading ledger positions.

The Group is exposed to foreign exchange risk, which manifests itself as the risk of negative effects on its financial performance and capital due to foreign exchange volatility, changes in the value of national currency relative to foreign currencies or changes in the value of gold or other precious metals. To minimise its exposure to foreign exchange risk, the Group diversifies the currency structure of its portfolio and the currency structure of liabilities and matches open positions by specific currencies, in accordance with the principle of maturity transformation of assets. In 2016, the Group complied with the regulatory foreign exchange risk indicator, which is set at 20% of regulatory capital.

Exposure to Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial performance and capital of the Group caused by adverse changes in interest rates, to which the Bank is exposed on the basis of items recorded in the bank ledger. The Parent Bank and the Group members comprehensively and timely identify the causes of any current exposure to interest rate risk and assess the factors of potential future exposure to this risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.

The aim of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of its impact on financial performance and economic value of equity by applying an appropriate policy of maturity matching in the repricing period and by matching sources of finance with loans by types of interest rates and maturity.

Exposure to Operational Risks

Operational risk is the risk of potential negative effects on the Group's financial performance and capital due to omissions of its employees, inadequate internal procedures and processes, inadequate management of information systems and other systems at the Group's member banks or due to unforeseeable external events. Operational risk also includes legal risk, which is the risk of potential negative effects on the Group's financial performance and capital due to lawsuits or out-of-court proceedings. The Group undertakes activities to mitigate operational risks and proactively respond to potential operational risk events through continual monitoring of all activities by implementing an appropriate and reliable information system designed to improve business practices and optimise the Group's operating processes. To minimise legal risk and its effects on financial performance, the Group continues improving its business practice as it pertains to timely provisioning against lawsuits against the Group's member banks, based on an assessment of anticipated future loss on this basis.

Investment Risk

The Group's investment risk is the risk of investment in other legal entities and in fixed assets and investment properties. The level of non-current investment is monitored in accordance with the regulations and the Group's Bodies and Committees are notified accordingly. This ensures that investments by Group members in any entity outside of the financial sector do not 10% of the Group's capital and that investments by Group members in any entity outside of the financial sector and in fixed assets and investment properties of the Group do not exceed 60% of the Group's capital.

Large Exposures

Large exposure of the Group to a single person or a group of related parties, including the Bank's related parties, is defined as any exposure the value of which is at least 10% of the Group's equity. In 2016, the Parent Bank and the Group members complied with the regulatory and internal exposure limits.

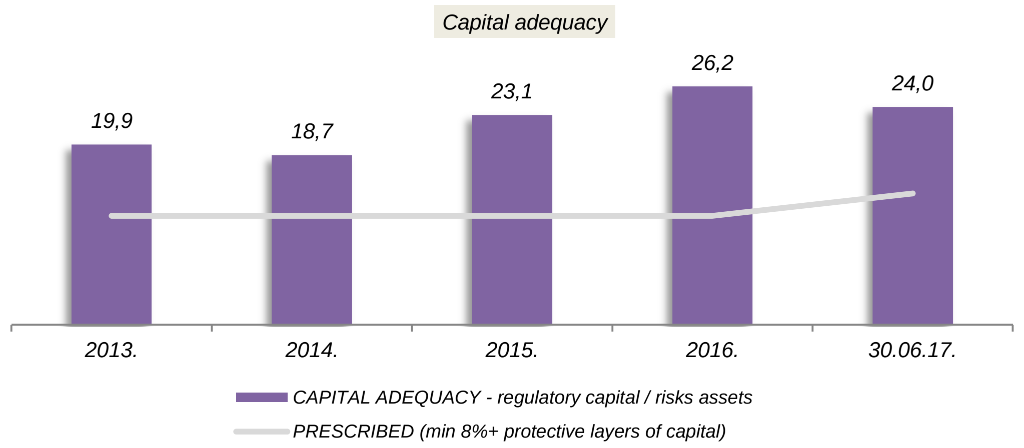
Exposure to Country Risk

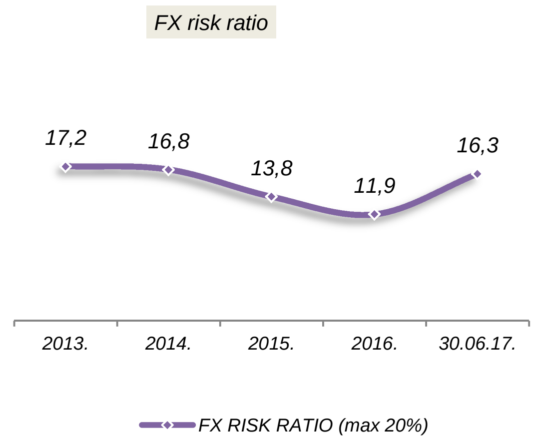
Country risk is the risk associated with the country of origin of a person to whom the Group is exposed, i.e. the risk of potential negative effects on the Group's financial performance and capital due to the Group's inability to collect its receivables from debtors for reasons associated with political, economic or social circumstances in the debtor's country of origin. The Group's exposure to country risk is at an acceptable level.

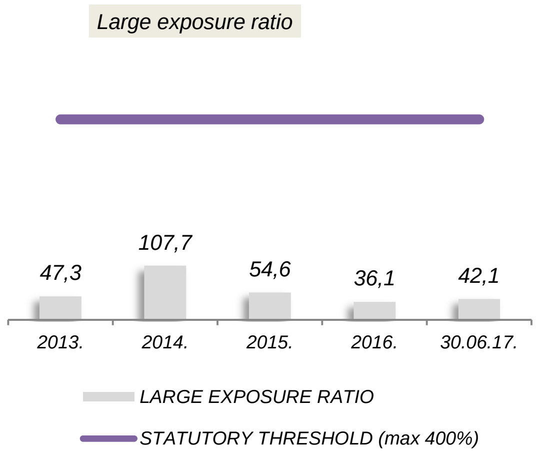
Regulatory Requirements for KB Group

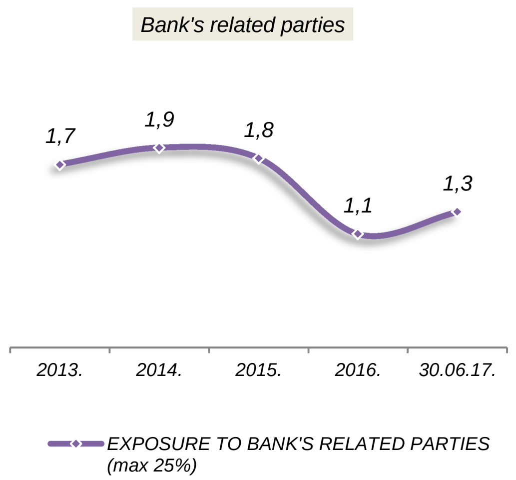
Under the Law on Banks: "The following shall be determined on a consolidated basis for a banking group:

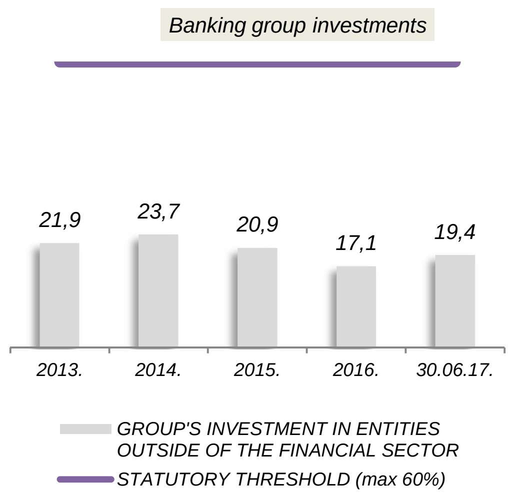
- Capital adequacy ratio,
- Large exposures,
- Investment in other legal persons and fixed assets,
- „Opened net FX position. "











12. Corporate social responsibility

Charities and Other Activities

Komercijalna Banka AD Beograd attaches special importance to activities in the area of corporate social responsibility. We value this segment because we are fully aware of its effects on customers' trust and corporate image. CSR activities have been carefully selected and the Group has actively collaborated with its partners in their implementation.

ZAJEDNO ZA BEBE

Cooperation with B92 Fund related to the activities of equipping maternity wards in Serbia in „Together for babies"humanitarian action has continued. The money raised in the last year was planned for equipment donations to maternity wards in Vrnjacka Banja, Jagodina and Priboj.

Komercijalna Banka AD Beograd supports sportsmen and woman competing in non-commercial sports and supported participation in European and World Competitions of Milica Mandic, Ivana Spanovic, Tijana Bogdanovic etc.

In cooperation with the Applied Arts Faculty, in KomBank Art Hall – KB's gallery, 10 exhibitions of young artists were organized, and the same space has been given for free to already recognized artists.

KOMBANK ARTHOL

CSR activities of the mother bank have been coordinated with subsidiary banks in Montenegro and Republic of Srpska.

Corporate Governance Rules

Corporate governance rules are based on the relevant legislation (Law on Banks and Law on Companies). The Corporate Governance Code sets out the principles of corporate governance which must be observed by corporate governance bodies in their work. The aim of the Code is to introduce good business practices and establish high corporate governance standards, which should reinforce the trust of shareholders, investors, clients and other shareholders. A good corporate governance practice essentially ensures consistency of the control system, protection of shareholders' interests, timely provision of all relevant information on operations and full transparency through public access of companies' financial statements.

The Parent Bank operates in compliance with the Corporate Governance Code of the Serbian Chamber of Industry and Commerce adopted by the Assembly of the Serbian Chamber of Industry and Commerce, in accordance with the Decision on Implementation of the Corporate Governance Code of the Serbian Chamber of Industry and Commerce passed by the Bank's Executive Board on 9 April 2013. Text of the Corporate Governance Code has been published on the web presentation of the Serbian Chamber of Commerce (http://www.pks.rs/PoslovnoOkruzenje) as well as on the web page of the bank (www.kombank.com/korporativno-upravljanje).

In its operation, Komercijalna Banka AD Budva applies the Business Ethics Code adopted by the Assembly of the Montenegrin Chamber of Commerce (Official Journal of Montenegro, No. 45/11 dated 09.09.2011.), which provides for the provisions of the Code to be mandatory for all business entities registered in the area of Montenegro.

Komercijalna Banka AD Banja Luka operates in compliance with the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska pursuant to Article 309 of the Law on Companies (*Official Gazette of the Republic of Srpska* Nos. 127/98, 58/09, 100/11 and 67/13) and Article 260 of the Law on Securities Market (*Official Gazette of the Republic of Srpska* Nos. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

Investment Fund Management Company KomBank INVEST AD Beograd, organized as a single-element non-public shareholders' company with bicameral management system. In order to provide unbiased, unprejudiced, transparent and responsible corporate behaviour, the Company applies the Operating Rules approved by the Securities Commission in accordance with Article 17 of the Law on Investment Funds (*Official Gazette of the Republic of Serbia* Nos. 46/2006, 51/2009, 31/2011 and 115/2014), Rules of Conduct and Professional Ethics complied with those of the parent company, Policy of Managing Conflict of Interest and Personal Transactions etc.

The powers and authorities of all bodies of the Group's members are based on relevant legislation and defined by internal instruments. Corporate governance rules are implemented through internal instruments and there are no derogations in their application.

Signed on behalf of Komercijalna Banka AD Beograd:

Savo Petrović
Executive Director for Finance and Accounting

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
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Miroslav Perić
Member of the Bank's Executive Board

BALANCE SHEET - CONSOLIDATED

as at 30.06.2017.

in RSD thousand

ITEM	ADP code	Amount	
		30.06. Current year	31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	0001	53.311.465	61.919.102
Pledged financial assets	0002	-	-
Financial assets recognised at fair value through income statement and held for trading	0003	2.596.681	247.862
Financial assets initially recognised at fair value through income statement	0004	-	-
Financial assets available for sale	0005	132.446.840	139.808.210
Financial assets held to maturity	0006	241.276	368.999
Loans and receivables from banks and other financial organisations	0007	36.073.923	43.216.681
Loans and receivables from clients	0008	160.940.496	166.401.008
Change in fair value of hedged items	0009	-	-
Receivables arising from hedging derivatives	0010	-	-
Investments in associated companies and joint ventures	0011	-	-
Investments into subsidiaries	0012	-	-
Intangible investments	0013	357.938	394.546
Property, plant and equipment	0014	6.107.536	6.251.187
Investment property	0015	2.488.447	2.608.051
Current tax assets	0016	13.130	7.283
Deferred tax assets	0017	1.769.488	-
Non-current assets held for sale and discontinued operations	0018	353.527	349.523
Other assets	0019	6.718.269	7.255.156
TOTAL ASSETS (from 0001 to 0019)	0020	403.419.016	428.827.608
LIABILITIES			
LIABILITIES			
Financial liabilities recognised at fair value through income statement and held for trading	0401	-	-
Financial liabilities initially recognised at fair value through income statement	0402	-	-
Liabilities arising from hedging derivatives	0403	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0404	7.860.534	9.822.519
Deposits and other liabilities to other clients	0405	317.385.306	345.135.959
Change in fair value of hedged items	0406	-	-
Own securities issued and other borrowings	0407	-	-
Subordinated liabilities	0408	6.050.242	6.178.390
Provisions	0409	1.433.091	2.021.507
Liabilities under assets held for sale and discontinued operations	0410	-	-
Current tax liabilities	0411	-	9.027
Deferred tax liabilities	0412	606.317	53.457
Other liabilities	0413	5.484.251	6.314.329
TOTAL LIABILITIES (from 0401 to 0413)	0414	338.819.741	369.535.188
CAPITAL			
Share capital	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	6.965.551	545.985
Loss	0418	-	7.048.674
Reserves	0419	17.599.108	25.760.493
Unrealized losses	0420	-	-
Non-controlling participation	0421	66	66
TOTAL CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	64.599.275	59.292.420
TOTAL CAPITAL SHORTFALL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	403.419.016	428.827.608

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

INCOME STATEMENT - CONSOLIDATED

from 01.01.2017. to 30.06.2017.

in RSD thousand

ITEM	ADP code	Amount	
		01.01.- 30.06. Current year	01.01.- 30.06. Previous year
1	2	3	4
Interest income	1001	7.908.793	9.247.439
Interest expenses	1002	1.006.934	1.958.989
Net interest income (1001 - 1002)	1003	6.901.859	7.288.450
Net interest expenses (1002 - 1001)	1004	-	-
Income from fees and commissions	1005	3.407.989	3.145.863
Expenses on fees and commissions	1006	794.976	597.326
Net income from fees and commissions(1005 - 1006)	1007	2.613.013	2.548.537
Net expenses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from financial assets held for trading	1009	41.981	31.493
Net losses on financial assets held for trading	1010	-	-
Net gains from hedging	1011	-	-
Net losses on hedging	1012	-	-
Net gains from financial assets initially recognised at fair value through income statement	1013	-	-
Net losses on financial assets initially recognised at fair value through income statement	1014	-	-
Net gains from financial assets available for sale	1015	44.429	14.585
Net losses on financial assets available for sale	1016	-	-
Net exchange rate gains and gains from agreed currency clause	1017	-	13.537
Net exchange rate losses and losses on agreed currency clause	1018	10.552	-
Net gains from investments in associated companies and joint ventures	1019	306	-
Net losses on investments in associated companies and joint ventures	1020	-	-
Other operating income	1021	726.245	163.819
Net income from reduction in impairment of financial assets and credit risk-weighted off-balance sheet items	1022	265.192	-
Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	1023	-	6.397.804
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	10.582.473	3.662.617
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1025	-	-
Salaries, salary compensations and other personal expenses	1026	2.520.905	2.444.690
Depreciation costs	1027	327.779	417.867
Other expenses	1028	3.246.437	3.490.426
PROFIT BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	4.487.352	-
LOSSES BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030	-	2.690.366
Profit tax	1031	-	-
Gains from deferred taxes	1032	1.235.813	-
Losses on deferred taxes	1033	-	-
PROFIT AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	5.723.165	-
LOSSES AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035	-	2.690.366
Net profit from discontinued operations	1036	-	-
Net losses on discontinued operations	1037	-	-
RESULT FOR THE PERIOD – PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038	5.723.165	-
RESULT FOR THE PERIOD – LOSSES (1034 - 1035 + 1036 - 1037) < 0	1039	-	2.690.366
Profit belonging to a parent entity	1040	5.723.165	-
Profit belonging to non-controlling owners	1041	-	-
Losses belonging to a parent entity	1042	-	2.690.366
Losses belonging to non-controlling owners	1043	-	-
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	1044		
Diluted earnings per share (in dinars, without paras)	1045		

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2017. to 30.06.2017.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. current year	01.01. - 30.06. previous year
1	2	3	4
PROFIT FOR THE PERIOD	2001	5.723.165	-
LOSS FOR THE PERIOD	2002	-	2.690.366
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss: Increase in revaluation reserves arising from intangible investments and fixed assets	2003	-	-
Decrease in revaluation reserves arising from intangible investments and fixed assets	2004	-	-
Actuarial gains	2005	-	-
Actuarial losses	2006	-	-
Positive effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2007	-	-
Negative effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2008	-	-
Components of other comprehensive income which may be reclassified to profit or loss: Positive effects of change in fair value of financial assets available for sale	2009	132.831	373.841
Unrealized losses on securities available for sale	2010	386.960	699.975
Gains from cash flow hedges	2011	-	-
Losses on cash flow hedges	2012	-	-
Cumulative translation gains for foreign operations	2013	-	82.675
Cumulative translation losses for foreign operations	2014	143.349	-
Positive effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2015	-	-
Negative effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2016	-	-
Tax gains pertaining to other comprehensive income for the period	2017	-	-
Tax losses pertaining to other comprehensive income of the period	2018	-	-
Total positive other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019	-	-
Total negative other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020	397.478	243.459
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	5.325.687	-
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2022	-	2.933.825
Total positive comprehensive income for the period belonging to a parent entity	2023	5.325.687	-
Total positive comprehensive income for the period belonging to non-controlling owners	2024	-	-
Total negative comprehensive income for the period belonging to a parent entity	2025	-	2.933.825
Total negative comprehensive income for the period belonging to non-controlling owners	2026	-	-

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2017. to 30.06.2017.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. current year	Amount 01.01. - 30.06. previous year
1	2	3	4
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 3002 to 3005)	3001	13.641.907	13.645.656
1. Interest	3002	9.441.194	10.351.816
2. Fees	3003	3.427.518	3.173.887
3. Other operating income	3004	769.791	108.777
4. Dividends and profit sharing	3005	3.404	11.176
II. Cash outflow from operating activities (from 3007 to 3011)	3006	8.026.511	8.085.208
5. Interest	3007	1.079.317	2.026.854
6. Fees	3008	795.984	598.645
7. Gross salaries, salary compensations and other personal expenses	3009	2.736.623	2.265.820
8. Taxes, contributions and other duties charged to income	3010	476.766	383.323
9. Other operating expenses	3011	2.937.821	2.810.566
III. Net cash inflow from operating activities before an increase or decrease in lending and deposits (3001 - 3006)	3012	5.615.396	5.560.448
IV. Net cash outflow from operating activities before an increase or decrease in lending and deposits (3006 - 3001)	3013	-	-
V. Decrease in lending and increase in deposits received and other liabilities (from 3015 to 3020)	3014	16.896.809	20.293.428
10. Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	8.788.673	-
11. Decrease in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3016	8.108.136	2.301.234
12. Decrease in receivables arising from hedging derivatives and change in fair value of hedged items	3017	-	-
13. Increase in deposits and other liabilities to banks, other financial organisations, central bank and clients	3018	-	17.992.194
14. Increase in financial liabilities initially recognised at fair value through income statement and financial liabilities held for trading	3019	-	-
15. Increase in liabilities arising from hedging derivatives and change in fair value of hedged items	3020	-	-
VI. Increase in lending and decrease in deposits received and other liabilities (from 3022 to 3027)	3021	20.473.760	3.352.690
16. Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	3.352.690
17. Increase in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3023	-	-
18. Increase in receivables arising from hedging derivatives and change in fair value of hedged items	3024	-	-
19. Decrease in deposits and other liabilities to banks, other financial organisations, central banks and clients	3025	20.473.760	-
20. Decrease in financial liabilities initially recognised at fair value through income statement and financial assets held for trading	3026	-	-
21. Decrease in liabilities arising from hedging derivatives and change in fair value of hedged items	3027	-	-
VII. Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3028	2.038.445	22.501.186
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	15.151	21.941
23. Dividends paid	3031	-	119.477
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	2.023.294	22.359.768
X. Net cash outflow for operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	3034	29.944.125	27.196.491
1. Investment in investment securities	3035	29.822.029	27.182.867
2. Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3. Sale of intangible investments, property, plant and equipment	3037	3.214	49
4. Sale of investment property	3038	118.882	13.575
5. Other inflow from investing activities	3039	-	-
II. Cash outflow for investing activities (from 3041 to 3045)	3040	37.343.167	44.231.399
6. Investment into investment securities	3041	37.194.515	43.840.603
7. Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8. Purchase of intangible investments, property, plant and equipment	3043	148.652	390.796
9. Purchase of investment property	3044	-	-
10. Other outflow for investing activities	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV. Net cash outflow for investing activities (3040 - 3034)	3047	7.399.042	17.034.908
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054)	3048	44.898.057	65.673.766
1. Capital increase	3049	-	-
2. Subordinated liabilities	3050	-	-
3. Loans taken	3051	44.898.057	65.673.766
4. Issuance of own securities	3052	-	-
5. Sale of own shares	3053	-	-
6. Other inflow from financing activities	3054	-	-
II. Cash outflow for financing activities (from 3056 to 3060)	3055	47.305.433	66.158.173
7. Purchase of own shares	3056	-	-
8. Subordinated liabilities	3057	-	-
9. Loans taken	3058	47.305.433	66.158.173
10. Issuance of own securities	3059	-	-
11. Other outflow for financing activities	3060	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV. Net cash outflow for financing activities (3055 - 3048)	3062	2.407.376	484.407
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	105.380.898	126.809.341
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	113.164.022	121.968.888
F. NET INCREASE IN CASH (3063-3064)	3065	-	4.840.453
G. NET DECREASE IN CASH (3064-3063)	3066	7.783.124	-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	39.661.743	38.666.685
I. EXCHANGE RATE GAINS	3068	432.263	524.697
J. EXCHANGE RATE LOSSES	3069	520.664	378.129
K. CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	31.790.218	43.653.706

from 01.01.2017. to 30.06.2017.

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

in RSD thousand

DESCRIPTION	ADP code	Share capital and other equity (accounts 800, 801,803)	ADP code	Own shares (account 128)	ADP code	Premium on issue of shares (account 802)	ADP code	Reserves from profit and other reserves (group of accounts 81)	ADP code	Revaluation reserves (group of accounts 82 credit balance)	ADP code	Revaluation reserves (group of accounts 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840, 841, 842)	ADP code	Total (columns 2-3+4+5+6-7+8-9) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9) < 0
1		2		3		4		5		6		7		8		9		10		11
Opening balance as at 1 January of the previous year		17.191.528	4029	-	4057	22.843.084	4085	25.737.160	4113	5.958.979	4127	270.108	4141	195.933	4175	6.962.174	4209	64.694.402	4215	-
Adjustment for material errors and changes in accounting policies in the previous year	4002	-	4030	-	4058	-	4086	-	4114	-	4128	-	4142	-	4176	-		x		x
Adjustment for material errors and changes in accounting policies in the previous year – decrease	4003	-	4031	-	4059	-	4087	-	4115	-	4129	-	4143	-	4177	-		x		x
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4004	17.191.528	4032	-	4060	22.843.084	4088	25.737.160	4116	5.958.979	4130	270.108	4144	195.933	4178	6.962.174	4210	64.694.402	4216	-
Total positive other comprehensive income for the period		x		x		x		x	4117	548.165	4131	243.119		x		x		x		x
Total negative other comprehensive income for the period		x		x		x		x	4118	-	4132	40.170		x		x		x		x
Profit for the current year		x		x		x		x		x		x	4145	-		x		x		x
Loss for the current year		x		x		x		x		x		x		x	4179	6.241.130		x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4146	131.550	4180	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4147	-	4181	-		x		x
Transactions with owners recognized directly in equity – increase	4005	-	4033	-	4061	-	4089	-		x		x	4148	-	4182	-		x		x
Transactions with owners recognized directly in equity – decrease	4006	-	4034	-	4062	-	4090	-		x		x	4149	-	4183	-		x		x
Distribution of profit – increase	4007	-	4035	-	4063	-	4091			x		x	4150	-	4184	-		x		x
Distribution of profit and/or coverage of losses – decrease	4008	-	4036	-	4064	-	4092	6.428.819		x		x	4151	161.223	4185	6.458.492		x		x
Dividend payments	4009	-	4037	-	4065	-	4093	-		x		x	4152	23.531	4186	-		x		x
Other – increase	4010	1	4038	-	4066	-	4094	12.170		x		x	4153	403.256	4187	303.862		x		x
Other – decrease	4011	-	4039	-	4067	-	4095	-		x		x	4154	-	4188	-		x		x
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4012	1	4040	-	4068	-	4096	-		x		x	4155	218.502	4189	-		x		x
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4013	-	4041	-	4069	-	4097	6.416.649		x		x	4156	-	4190	6.154.630		x		x
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4014	17.191.529	4042	-	4070	22.843.084	4098	19.320.511	4119	6.507.144	4133	67.159	4157	545.985	4191	7.048.674	4211	59.292.420	4217	-
Opening balance as at 1 January of the current year	4015	17.191.529	4043	-	4071	22.843.084	4099	19.320.511	4120	6.507.144	4134	67.159	4158	545.985	4192	7.048.674	4212	59.292.420	4218	-
Adjustment for material errors and changes in accounting policies in the previous year – increase	4016	-	4044	-	4072	-	4100	-	4121	-	4135	-	4159	-	4193	-		x		x
Adjustment for material errors and changes in accounting policies in the previous year – decrease	4017	-	4045	-	4073	-	4101	-	4122	-	4136	-	4160	-	4194	-		x		x
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4018	17.191.529	4046	-	4074	22.843.084	4102	19.320.511	4123	6.507.144	4137	67.159	4161	545.985	4195	7.048.674	4213	59.292.420	4219	-
Total positive other comprehensive income for the period		-		x		x		x	4124	131.520	4138	2.627		x		x		x		x
Total negative other comprehensive income for the period		-		x		x		x	4125	544.446	4139	11.269		x		x		x		x
Profit for the current year		-		x		x		x		x		x	4162	5.723.165		x		x		x
Loss for the current year		-		x		x		x		x		x		x	4196	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		-		x		x		x		x		x	4163	-	4197	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		-		x		x		x		x		x	4164	-	4198	-		x		x
Transactions with owners recognized directly in equity – increase	4019	-	4047	-	4075	-	4103	-		x		x	4165	-	4199	-		x		x
Transactions with owners recognized directly in equity – decrease	4020	-	4048	-	4076	-	4104	-		x		x	4166	-	4200	-		x		x
Distribution of profit – increase	4021	-	4049	-	4077	-	4105	1.711		x		x	4167	-	4201	-		x		x
Distribution of profit and/or coverage of losses – decrease	4022	-	4050	-	4078	-	4106	7.730.293		x		x	4168	369.727	4202	5.212.472		x		x
Dividend payments	4023	-	4051	-	4079	-	4107	-		x		x	4169	-	4203	-		x		x
Other – increase	4024	-	4052	-	4080	-	4108	-		x		x	4170	2.869.030	4204	-		x		x
Other – decrease	4025	1	4053	-	4081	-	4109	11.234		x		x	4171	1.802.902	4205	1.836.202		x		x
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4026	-	4054	-	4082	-	4110	-		x		x	4172	696.401	4206	-		x		x
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4027	1	4055	-	4083	-	4111	7.739.816		x		x	4173	-	4207	7.048.674		x		x
Balance as at 31 December of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4028	17.191.528	4056	-	4084	22.843.084	4112	11.580.695	4126	6.094.218	4140	75.801	4174	6.965.551	4208		4214	64.599.275	4220	-

KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 30.06.2017

Belgrade, July 2017

1. ESTABLISHMENT AND ACTIVITY OF THE BANKING GROUP

Komercijalna banka a.d., Beograd (hereinafter the “Parent 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 re-registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991. The Parent Bank’s tax identification number is 100001931.

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

Republic of Serbia	41.74%
EBRD, London	24.43%

The Parent Bank has three subsidiaries with the following equity interests:

- 100%	- Komercijalna banka a.d., Budva, Montenegro
- 100%	- KomBank INVEST a.d.,Beograd, Serbia
- 99.998 %	- Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina

Minority owner (non-controlling interest) of Komercijalna banka a.d., Banja Luka with 0.002% equity interest is the Republic of Serbia Export Credit and Insurance Agency.

The consolidated financial statements and notes to the consolidated financial statements represent information of the Parent Bank, of Komercijalna banka a.d., Budva, Montenegro, Komercijalna banka a.d., Banja Luka and Investment Fund Management Company KomBank Invest a.d., Beograd (jointly the “Group“).

Komercijalna banka a.d., Budva was established as an affiliate of Komercijalna banka a.d., Beograd in November 2002 and entered into the Central Register maintained by the Commercial Court of Podgorica at March 6, 2003. Its corporate ID number is 02373262.

Komercijalna banka a.d., Banja Luka was established in September 2006 and registered with the Court Register under the relevant decision of the Basic Court in Banja Luka at September 15, 2006. Its corporate ID number is 11009778.

The Investment Fund Management Company KomBank Invest a.d., Beograd was founded in December 2007 and registered at February 5, 2008. Its corporate ID number is 20379758.

The Group’s activities include crediting activities, deposit and guarantee activities and payment transfer operations in the country and abroad in accordance with the Law on Banks, as well as investment fund managing activities. The Group is obligated to operate based upon principles of liquidity, safety and profitability.

As of June 30, 2017 the Group was comprised of the Central Office in Belgrade at the address of no.14, Svetog Save St. head office of Komercijalna banka a.d., Budva in Budva at the address of PC Podkošljun bb, head office of Komercijalna banka a.d., Banja Luka in Banja Luka at the address of no. 6, Veselina Masleše St., head office of Investment Fund Management Company KomBank Invest a.d., Beograd in Belgrade, at the address of no. 19, Kralja Petra St.; 11 business centers, 13 branch offices and 223 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina (2016: 34 branch offices and 228 sub-branches).

As of June 30, 2017 the Group had 3,054 employees, and as of December 31, 2016 3,152 employees.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

The Bank's consolidated financial statements for 30.06.2017 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

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 consolidated 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 Parent Bank adhered to the accounting policies described in Note 3.

Group members during 2017, kept accounting records and prepared individual financial statements in accordance with local laws, other regulations, which are based on International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") and the regulations of the respective central banks and regulatory bodies. The individual financial statements have been audited by the external auditors, based on applicable local regulations.

For the purpose of preparing consolidated financial statements, the individual financial statements of subsidiary banks were adjusted for financial statement presentation based on accounting regulations of the Republic of Serbia.

The Group's consolidated financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are stated in dinars and rounded in thousands.

Functional currency EUR in the financial statements of Komercijalna banka ad, Budva and BAM from the financial statements of Komercijalna Banka AD, Banja Luka, are denominated into the reporting currency, which is the functional currency of the Parent Bank - dinar (RSD) based on the officially published exchange rates in the Republic of Serbia.

2.2. Going Concern

The consolidated financial statements were prepared on a going concern assumption entailing the Group'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 consistently applied by the Group members to all periods presented in these financial statements.

(a) Consolidation

The Parent Bank has control over the following legal entities, which are 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 consolidated income statement and consolidated cash flow statement have been recalculated at the average exchange rate in the Republic of Serbia for the year 2017 of RSD 123.4005 for EUR 1 and RSD 63.0937 for BAM 1, while the other consolidated financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) were recalculated by applying the closing exchange rate effective as of the balance sheet date of RSD 120.8486 for EUR 1 and RSD 61.7889 for BAM 1.

(b) Foreign Exchange Denomination

Transactions in foreign currencies are denominated into RSD at the spot middle exchange rates effective 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 balance sheet items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

		In RSD
	June 30, 2016	2016
USD	105.6461	117.1353
EUR	120.8486	123.4723
CHF	110.3842	114.8473
BAM	61.7889	63.1304

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, each Group member 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.

The recognition of interest income on impaired loans is performed on a net basis, by reducing gross accrued interest for amount of impairment, ie for the amount that is likely not to be charged.

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 Group members' trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and Commissions

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

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 income tax relating to items recognized directly credited or charged to equity is also charged in favor of capital.

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, Montenegro and Bosnia and Herzegovina, Group members pay various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under “other operating expenses”

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities

(i) Recognition

The Group members initially recognize loans and receivables, deposits, borrowings and subordinated liabilities on the date at which they are are transferred to the borrower or received.. All other financial assets and liabilities are initially recognized on the date at which the relevant entity 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.

(ii) Classification

The Group members classified their 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 Group members classify financial liabilities as measured at amortized cost or held for trading – please refer to accounting policies.

(iii) Derecognition

The Group members derecognize 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 Group member 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 Group member is recognized as a separate asset or liability in the balance sheet. 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.

A Group member enters in transactions whereby it transfers assets recognized on its balance sheet, 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 a Group member neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group member 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. A Group member derecognizes a financial liability when it is settled, cancelled or ceded.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, a Group member 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 trading activities of the Group members.

(v) Amortized Cost Measurement

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

(vi) Fair Value Measurement

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

When available, the Group members measure 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 Group members establish 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 a Group member, 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 Group member 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vi) Fair Value Measurement (continued)

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 a Group member 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 a Group member believes a third-party market participant would take them into account in pricing a transaction.

(vii) Identification and Measurement of Impairment

At reporting date the Group members assess 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 a bank on terms that a 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.

A Group member 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 Group members use 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial Assets and Liabilities (continued)

(vii) Identification and Measurement of Impairment (continued)

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 Group members write off certain loans and receivables and investment securities when they are determined to be uncollectible (see Note 4.1).

(k) Cash and Cash Equivalents

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

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 Group members acquire or incur principally for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position taking.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trading Assets and Liabilities (continued)

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

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

Derivatives

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

(m) Loans and Receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investment Securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, at fair value through profit or loss, or as 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 Group members have 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 a Group member 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 a Group member has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond a Group member's control that could not have been reasonably anticipated.

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

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by a Group member as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that a Group member 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. Upon initial recognition, the managements of Banking Group members have not classified financial assets to sub-category declared by fair value through income statement.

(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.

Unless there is an active market for financial assets available for sale, these are measured 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 a Group member becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investment Securities (continued)

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 equity 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 a Group member has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

(o) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price.

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 a Group member 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property and Equipment (continued)

(iii) Depreciation

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

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4 - 5	20%-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.

(p) Intangible Assets

Intangible assets acquired 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Group members use 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) Assets Acquired in Lieu of Debt collection and Assets Held for Sale

Assets are classified as held for sale if the carrying amounts thereof can be recovered primarily through a sales transaction and not through further usage.

Non-current assets held for sale are measured at the lower of the carrying value or fair value less costs to sell. If such an asset is not sold within a year from the initial recognition date, its carrying value is adjusted to the fair value as well as in instances of impairment, when the recoverable amount of the asset decreases below its carrying value.

Collection of receivables through acquisition of movable and immovable assets, in instances of receivables securitized with mortgages, trust deeds or pledge liens or another type of collateral, is performed based on a court ruling and/or purchase and sale contract arising from out-of-court settlement or auction purchase.

Movable and immovable assets acquired in lieu of debt collection are recognized in the books of account as inventories of assets acquired in lieu of debt collection intended for sale within a year.

Such assets are initially measured at the lower of:

- gross amount of receivables underlying the acquisition of assets, and
- appraised value of such assets (as per appraisal not older than a year) less costs to sell.

Exceptionally, when assets are acquired as per court ruling in the amount lower than the gross amount of receivables claims, such assets are measured at the value stated in the relevant court ruling. In addition, an appraisal of the acquired assets is performed as soon as possible, at the end of the current year at the latest.

After the initial recognition, the carrying values of assets acquired in lieu of debt collection are adjusted to their fair values as well as in instances of impairment of assets, when their carrying values drop below their recoverable amounts. To assets acquired in lieu of debt collection and non-current assets held for sale, the Group members implement the procedures of mandatory fair value assessment by qualified experts before the sale. The fair value assessment is made by a qualified external expert if an existing appraised value is over a year old in order to arrive at the framework for sale pricing.

Based on the qualified experts' assessments of the value of assets acquired in lieu of debt collection and assets held for sale, the carrying values of such assets are adjusted to their fair values in accordance with the requirements of IFRS 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases

The Group members appear as lessees in leasing agreements. The Group members classify 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 Group members' 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 Group members' 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.

(t) Impairment of Non-Financial Assets

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

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

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

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

(u) Deposits, Borrowings and Subordinated Liabilities

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

The Group members classify capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provisions

A provision is recognized if, as a result of a past event, a Group member 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.

(w) Employment Benefits

In accordance with regulatory requirements, the Group members are 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 Group members are 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 Group members are under obligation to pay their vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported represent the present value of the expected future payments to employees as determined by actuarial assessment.

(x) 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.

(y) Equity and Reserves

The Group's equity consists of founders' capital, shares of subsequent issues, share premium, reserves, fair value (revaluation) reserves, retained earnings and current year's earnings .

The Group's equity is comprised of funds invested by the Parent Bank's founders and minority founder of Komercijalna banka a.d., Banja Luka in pecuniary form. A founder cannot withdraw funds invested in the Group's equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Earnings per Share

The Parent 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 Parent 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 all dilutive preferred shares and dividing it by the weighted average number of ordinary shares outstanding.

(zz) Segment Reporting

An operating segment is a component of the Group – a Group member – 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 Group's other components, whose operating results are reviewed regularly by Parent Bank's 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 statements are available.

4. RISK MANAGEMENT

The Banking Group 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 Group 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 Group's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Group 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 the defined acceptable risk levels, diversification of risks that the Group is exposed to, maintaining the required level of capital adequacy, maintaining the proportion of NPL in total loans within the acceptable level for the Group, the maximum acceptable level of non-performing loans, developing the Group's activities in accordance with business opportunities and market development with a view to gain competitive advantage. Risk management goals are aligned with the Group business plan and can be modified during the business year.

As of June 30, 2017 the Group implements Basel III regulatory standard and it undertook all the necessary measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Group. Through the clearly defined process of introducing new products, the Group 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 Group's financial result.

Risk Management System

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

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

Risk Management Strategy sets out:

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

Additionally, Risk Management Strategy defines criteria for identification, as well as basic principles for management of non-performing assets and maximum acceptable level of non-performing assets for the Group.

4. RISK MANAGEMENT (continued)

Risk Management System

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

- Organizing operation of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular operating activities of the Group;
- 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.

Principles of management of non-performing assets, i.e. risky placements include the following:

- Active management of risky placements;
- Preventive measures and activities with the aim of minimization of further deterioration of assets quality;
- Definition of non-performig assets management strategy – set of activities and measures with the aim of recovery of debtor's financial position or initiation of corresponding enforced collection procedures;
- Early identification of the debtors who face financial difficulties or are in arrears or in default (Watch list);
- Assessment of financial condition of the borrowers;
- Set of indicators for inclusion of the debtors within the scope of organizational unit which is responsible for management of non-performing assets;
- Segmentation of non-performing assets;
- Materiality principle for definition of possible measures;
- More frequent monitoring of collaterals value and property acquired through collection of receivables;
- Organizational separation of Sector for prevention and risky placements management;
- Transparent reporting.

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the Banking Group and clear division of personnel responsibilities in all stages of the process, including non-performing assets, i.e. risky placements management process ;
- Manner of assessing the Banking Group'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 Banking Group uses as well as their structure;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the internal capital adequacy assessment process of the Banking Group;
- 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 Parent Bank and Banking Group members in the risk management system.

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

4. RISK MANAGEMENT (continued)

Competencies

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

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Parent Bank and the Group are exposed to. Also, the Executive Committee analyzes the risk management system, and at least once quarterly reports to the Board 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 Group's exposure to an entity related to the Group and shall notify the Board of Directors.

The Audit Committee is authorized and responsible for continued monitoring of application and adequate implementation of risk management policies and procedures, and for implementing the internal control system of the Parent Bank and the Group. 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 risk exposure resulting from the structure of the Group member's receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks. Each Group member has its own Asset and Liability Committee.

The Credit Committee decides on loan requests in accordance with the Parent Bank's internal acts, it analyzes the Parent Bank's exposure to credit, interest rate and currency risk, it analyzes the credit portfolio and implements the recommendations of the internal audit under the Committee's remit, and also suggests adequate measures to the Parent Bank's Executive Board. Each Group member has its own Credit Committee, which makes decisions within its remit and limits.

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 Parent Bank and the Group are exposed to. It is also in charge of developing models and methodologies of risk management and reporting to the competent Banking Group's bodies.

The Parent Bank's Treasury is responsible for managing assets and liquidity, as well as assets and liabilities on the Group level. It also participates in the liquidity risk management and interest rate and currency risk management.

The Internal Audit Division is responsible for continued monitoring of implementation of risk management policies and procedures on the Group level, and tests the adequacy of procedures and the Group members' compliance with them. The 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 at least annually compliance risks of the Parent Bank and Group members against the Annual Business Plan adopted by the Board of Directors and proposes risk management plans, of which it prepares a report and submits it to the Executive Board and Board for Monitoring of the Parent Bank's Operation. This report is adopted by the Executive Board and submitted to the Board of Directors for their information. The Banking Group members have organizational units for risk management, asset management and internal audit.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Banking Group 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 Banking Group determines their significance based on as comprehensive assessment of risks in the Banking Group's particular operations, products, activities and processes.

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

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

Risk management reports are regularly submitted to: the 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 risks. Group members report to the Parent Bank's risk management organizational unit on a monthly basis.

Risk Types

In its regular course of business, the Banking Group 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 Banking Group'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 Group members have 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, each Group member 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 Group member's competent bodies enact a loan approval decision in accordance with the defined decision making system.

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.

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Group 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 Group members have 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 Group is in line with the defined risk management strategy and depends on the Group'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 Group's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Group'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 their effort to manage credit risk all Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting their receivables.

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

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

For adequate and efficient management of the risks they are exposed to, the Parent Bank and Group members also comply with the principles prescribed by their respective central banks, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses.

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

Basic credit risk alleviating techniques are:

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

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

The exposure limits per individual debtor are based on the assessment of the debtor's credit- worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Group members continuously control credit risk movements within a defined risk profile. In instances of exceeding the internal limits, the Group members submit explanations thereof and propose measures and action plans, while the Parent Bank notifies the Executive Board on the aforesaid excess of limits. Group members are obligated to inform the Parent Bank on any extraordinary circumstances in their operations that may occur due to the adverse local market trends, political and economic crises and the like.

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

The Parent Bank performs continuous control and monitoring of the exposure risk at the Group's portfolio level, within regulatory prescribed limits. In instances of exceeding the prescribed limits, the Parent Bank determines the causes thereof, informs the Executive Board thereof and proposes to the Parent Bank's Executive Board protective measures against the exposure risk.

At the Group level, investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring loan 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. The Group members also continuously monitor and review adequacy of the process of loan rating and classification into risk groups according to the extent of recoverability.

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

As a hedge against counterparty default risk, the Group members undertake the following steps in respect to collection of due receivables: prolongation of repayment; loan rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; execution of agreements with interested third parties; and instigation of 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 Group initiates write-off of the remaining receivables or transfer from the balance sheet to off balance sheet.

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

Credit risk reporting includes internal and external reporting systems executedaccording to a preset schedule and in conformity with the defined reporting system:

- The Group members report to the Parent Bank on a monthly basis;
- The Parent Bank reports on a consolidation basis, semi-annually and annually.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims

The Group members monitor 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 per any materially significant obligation towards the Bank, its parent company or subsidiaries, claims for which based on assessed financial position is estmated 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 Group considers it would not be collected in full without the realization of collateral). Claims are also considered to be problematic if these fulfill the following: the bank puts interest income and commission and fees income owed by the borrower on non-accrued status in the income statement; the bank recognises a specific adjustment for credit risk resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure; the material loss created by the sale of the obligation; restructuring of claims due to financial difficulties of the borrower; the bank has submitted a proposal for the obligor’s bankruptcy. Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

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 Group member 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,

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

- 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 Group (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 Group members regularly monitor the measures taken to restructure the risky placements and control 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.

Assets quality deterioration Risk

The quality of the Group'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 Group 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 (risk rating categories 4 and 5).

The Group protects itself against assets quality deterioration 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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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

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

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

The Group members assess allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

Each Group member 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 Group member will be settled, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Group members determine 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 Group members have 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 Group members 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 Group has.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

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.

Group-Level 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 Probable 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 Group members also perform determination of probable loss for unused commitments, for which it have not contracted unconditionally and without notice, the possibility of cancellation of contractual obligations. When calculating provisions for unused commitments, the Group members use 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 Group members use, 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.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

As a standard collaterals Group members accept 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

When assessing property or pledges over movable property, the Group members provide 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 Group members, and the insurance policies must be endorsed in favor of the Group members.

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 Group members protect 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 Group members pay 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 portfolio with movements in the market value in the Group members country 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 Group members conduct 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 Group members monitor and update 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)

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Group's financial result and equity resulting from the Group'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 Group 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 Group 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 Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- Diversifies sources of assets in respect to their currencies and maturities;
- Forms and maintains 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.

Identifying liquidity risk 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 Group is performed through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

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

Minimizing liquidity risk consists of maintaining this risk at a level that is acceptable to the Group'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 above mentioned limits.

4. RISK MANAGEMENT (continued)

4.2. Liquidity Risk (continued)

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally defined limits, and monitoring of defined measures for reducing the Group'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 group'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 Group’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 Group also monitors compliance with the regulatory prescribed rigid/narrow 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. Starting from June 30th 2017, the Group adjust its operation with the regulated indicator of liquidity coverage ratio, which maintains at a level not lower than 100%.

During 2017 the Group’s liquidity ratio and narrow liquidity ratio were both well above the prescribed limits and liquidity coverage ratio is et the level above 100%.

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

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

In near term, the Group 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 Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

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

4. RISK MANAGEMENT (continued)

Market Risk

Market risk represents the possibility of occurrence of negative effects on the Group'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 Group 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 held for trading or to hedge other financial instruments that are maintained in the trading book.

The Group 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 Group's exposure to this risk.

4.3. Interest Risk

Interest rate risk represents the probability of negative effects on the Group'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 Group manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Group is exposed due to changes in yield curve shape;
- Basis risk – to which the Group 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 Group 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 Group manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Group 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.

4. RISK MANAGEMENT (continued)

4.3. Interest Risk (continued)

Measurement and assessment of interest rate risk at the Group 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.

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

During 2017 the Group’s interest rate risk ratios were within internally prescribed limits.

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 Group’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 Group’s assets and liabilities to different scenarios of changes in interest rates. The Group performs regular interest rate risk stress testing to assess the estimated impact of the changes in the key factors on the Group’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 Group estimates based on historical trends and expert estimates. The Group estimated trends with regard to transaction deposits, demand deposits and savings deposits of retail customers using time series statistical modeling.

4. RISK MANAGEMENT (continued)

4.4. Currency Risk

Currency risk represents the possibility of negative effects on the Group'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 Group 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 Group 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 Group'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 Group 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 Group 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 Group'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 Group 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 Group's regulatory capital.

4. RISK MANAGEMENT (continued)

4.5. Ten-Day VaR

The Group 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 Group's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Group's portfolio during a specified period with a predefined confidence interval. The Bank calculates a one day and a ten day VaR parameter and stress VaR parameter, with a 99% confidence interval for foreign currency positions (currency VaR). In order to estimate the regulatory capital adequacy requirements regarding currency risk, the Group 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.

4.6. Operational Risk

The Bank members of the Group monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank members of the Group 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 member of the Group which is responsible for risk management monitors and reports operational risks.

Measurement and assessment of operational risk at the Group is done through quantitative and/or qualitative assessment of identified operational risk. The Bank member of the Group 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 exposure to operational risk.

The Group 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 Group 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 Group's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Group has established a system for monitoring the activities undertaken by the Group's organizational parts in order to reduce arising operational risks. The Group assess the risk of entrusting third parties with activities related to the Group'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 Group, and to limit losses that could be incurred in extraordinary circumstances, the Group 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 Group adopted the Disaster Recovery Plan.

4. RISK MANAGEMENT (continued)

4.7. Investment Risks

The Group's investment risk relates to the risk of investing in other entities and investment properties. The Group's investments in a non-financial sector entity cannot exceed 10% of the Group's equity, whereby such investments entail investments through which the Group acquires equity interest or shares in a non-financial sector entity. The total Group's investment in non-financial sector entities and Group's own fixed assets cannot exceed 60% of the Group'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.

4.8. Exposure Risk

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

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

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

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

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

4.9. Country Risk

Country risk relates to the risk of the country of origin of the entity the Group is exposed to, i.e. the possibility of negative effects on the Group'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 Group'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.

The Group management of country risk is made per individual loans and receivables and at the Group's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Group'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 Group's equity, depending on the internal country rating category. The Group 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 Group defines exposure limits individually per borrower country of origin.

4. RISK MANAGEMENT (continued)

4.10. Fair Value of Financial Assets and Liabilities

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 Group 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 Group's members 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.

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.

4.11. Capital Management

The Group 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 Group's business policy goals.

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel III Standard starting from June 30, 2017.

The Banking Group manages capital on an ongoing basis.Basic goals of regulatory capital management are:

- Maintain the minimum regulatory capital requirement (EUR 10 million);
- Maintain the capital buffers;
- Comply with the prescribed minimum capital adequacy ratios enlarged by capital buffers;
- Maintain customer trust in the safety and stability of 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.

4. RISK MANAGEMENT (continued)

4.11. Capital Management *(continued)*

The Bank's Group regulatory capital represents the sum of the Tier 1 capital (comprised of Common Equity Tier 1 Capital and Additional Tier 1 Capital) and Tier 2 capital, reduced for deductible items. The capital adequacy ratios represent the Group's capital (total, Tier 1 or Common Equity Tier 1 Capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries; risk exposure amount for settlement/delivery (except for free deliveries); risk exposure amount for market risks; risk exposure amount for operational risk; risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries at the Group level are determined according to risk weights prescribed for all types of assets. Risk exposure amount for operational risk at the Group level 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 Ratios		**In thousand RSD**
	30.06.2017.	**31.12.2016.**
Tier 1 Capital	51,539,216	47,588,844
Common Equity Tier 1 Capital	51,165,706	-
Additional Tier 1 Capital	373,510	-
Tier 2 Capital	605,567	4,425,745
Deductible items	(7,827,280)	(121,681)
Capital	**44,317,503**	**51,892,908**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	146,353,451	172,570,019
Risk exposure amount for operational risk	33,979,411	23,173,092
Risk exposure amount for market risks	4,672,838	2,720,453
Capital adequacy ratio (min 8%+6.45pp)	**23.95%**	**26.15%**
Tier 1 capital adequacy ratio (min 6% +6.45pp)	**23.63%**	**-**
Common Equity Tier 1 Capital adequacy ratio (min 4.5%+6.45pp)	**23.43%**	**-**

Note1: data as of June 30, 2017 and December 31, 2016 are not fully comparable due to calculations based upon different regulations (according to Basel II standard as of December 31, 2016 and according to Basel III standard as of June 30, 2017).
Note2: Deduction of capital as of 30.06.2017.refers to Common Equity Tier 1 Capital.
Note3:Capital Adequacy ratios shoud be increased by percentage for the total combined buffer requirement. As of June 30, 2017 the total combined buffer requirement amounts to 6.45%.

During the second quarter of 2017, the Group's capital adequacy ratios were in excess of the prescribed regulatory limits.

4. RISK MANAGEMENT (continued)

4.11. Capital Management (continued)

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

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

- Strategic goals and schedule for realization thereof;
- Manner of maintainance of capital buffers which is applicable for the Group;
- 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 Group 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 Group is or may be exposed to;
- it provides adequate level of internally available capital according to the Group's risk profile,
- it is included in the Group'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 reporting period. Estimates and underlying assumptions are continually reviewed and are based on previous experience, as well as on various information available on the day of financial statements preparation, believed to be real and 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(i) (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(i) (vi). For financial instruments that have been traded 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 Group's Accounting Policies

Critical accounting judgments made in applying the Group'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(i) (vii) and 3(n).

Valuation of Financial Instruments

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

5. USE OF ESTIMATES (continued)

Critical Accounting Judgments in Applying the Group's Accounting Policies (continued)

Group members measure 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 Group 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 Parent Bank monitors and discloses business operations by segments.

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

The Group has four members which represent strategic organizational units:

Komercijalna banka a.d., Beograd, Serbia, the Parent Bank	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d., Budva, Montenegro	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	Includes credit, depositary and guarantee operations, as well as operations of payment in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Društvo za upravljanje investicionim fondom a.d., Beograd, Serbia	Includes management of investment funds operations

The Parent Bank monitors and discloses operations by strategic segments – Group members, within its consolidated financial statements. The Group performs most of its operations in the Republic of Serbia. Subsidiaries are not material to the individual financial statements of the Parent Bank.

The Parent Bank total balance amount to 92.0% of the total balance of the consolidated balance sheet (2016: 92.6%).

Total balance of the Komercijalna banka a.d., Budva, amount to 3.4% of the total consolidated assets (2016: 3.1%), Komercijalna banka a.d., Banja Luka, 4.6% (2016: 4.3%) and KomBank INVEST 0.038% (2016: 0.002%).

The result of a strategic segment is used to measure operating performance, since the Parent Bank's management believes that this information is most relevant for evaluating the results of certain strategic segment in comparison with other legal entities operating within these activities on the local market.

6. SEGMENT REPORTING (continued)

Prices in commercial transactions between strategic segments are determined on a market basis.

All mutual transactions were eliminated from the balance sheet through consolidation in the amount of RSD 6,119,129 thousand (2016: RSD 6,387,271 thousand). Revenues were eliminated from the income statement in the amount of RSD 35,515 thousand (30.06.2016: RSD 8,452 thousand), while the elimination of the expenses amounted to RSD 24,987 thousand (30.06.2016: RSD 23,359 thousand).

Balance sheet for 30.06.2017

In RSD '000

	Aggregated unconsolidated balance sheet	Amount of balance sheet consolidation	Consolidated balance sheet
	409,538,145	**6,119,129**	**403,419,016**
cash/liabilities		2,704	
placements/liabilities		635,537	
stakes/capital		5,480,888	

Income statement for 30.06.2017

In RSD '000

	Aggregated unconsolidated profit in the income statement (before tax)	Amount of income statement consolidation – income	Amount of income statement consolidation – expenses	Consolidated profit (before profit)
	4,497,880	**35,515**	**24,987**	**4,487,352**
interest		2,143	2,143	
fees		4,532	4,532	
exchange difference (reclassified to equity)		28,840	18,312	

Balance sheet for the year 2016

In RSD '000

	Aggregated unconsolidated balance sheet	Amount of balance sheet consolidation	Consolidated balance sheet
	435,214,879	**6,387,271**	**428,827,608**
cash/liabilities		723,575	
placements/liabilities		182,808	
stakes/capital		5,480,888	

Income statement for 30.06.2016

In RSD '000

	Aggregated unconsolidated profit in the income statement (before tax)	Amount of income statement consolidation – income	Amount of income statement consolidation – expenses	Consolidated balance sheet
	(2,705,273)	**8,452**	**23,359**	**(2,690,366)**
interest		2,694	2,694	
fees		3,802	3,802	
exchange difference (reclassified to equity)		1,956	16,863	

6. SEGMENT REPORTING (continued)

A. BALANCE SHEET – CONSOLIDATED as at June 30st 2017

For each of the strategic organizational units, the management of the Parent Bank controls the internal management reports on at least a quarterly basis. Below is an overview of the activities of the strategic segments of the consolidated balance sheet and consolidated income statement for 30.06.2017 and 2016:

In RSD '000

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	48,163,638	1,755,512	3,392,315	-	53,311,465
Financial assets at fair value through profit and loss, held for trading	2,444,835	-	-	151,846	2,596,681
Financial assets available for sale	128,246,890	2,416,973	1,782,977	-	132,446,840
Financial assets held to maturity	-	241,276	-	-	241,276
Loans and receivables due from banks and other financial institutions	34,761,626	752,869	559,428	-	36,073,923
Loans and receivables due from customers	141,862,687	7,084,463	11,993,346	-	160,940,496
Intangible assets	323,055	8,873	26,010	-	357,938
Property, plant and equipment	5,718,325	329,198	59,977	36	6,107,536
Investment property	2,084,645	116,317	287,485	-	2,488,447
Current tax assets	-	-	13,127	3	13,130
Deferred tax assets	1,768,775	713	-	-	1,769,488
Non-current assets held for sale and assets from discontinued operations	181,081	-	172,446	-	353,527
Other assets	5,669,605	952,717	93,700	2,247	6,718,269
TOTAL ASSETS	**371,225,162**	**13,658,911**	**18,380,811**	**154,132**	**403,419,016**

6. SEGMENT REPORTING (continued)

A. BALANCE SHEET – CONSOLIDATED as at June 30st 2017 (continued)

In RSD '000

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to banks, other financial institutions and the Central bank	5,178,858	200,618	2,481,058	-	7,860,534
Deposits and other liabilities due to customers	294,511,663	11,112,900	11,760,743	-	317,385,306
Subordinated liabilities	6,050,242	-	-	-	6,050,242
Provisions	1,241,184	168,906	22,203	798	1,433,091
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	576,374	25,623	4,320	-	606,317
Other liabilities	5,294,225	60,892	127,533	1,601	5,484,251
Total liabilities	**312,852,546**	**11,568,939**	**14,395,857**	**2,399**	**338,819,741**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	7,753,233	(841,352)	42,313	11,357	6,965,551
Reserves	16,781,397	591,969	225,450	292	17,599,108
Non-controlling shares	-	-	66	-	66
Total equity	**64,569,180**	**(249,383)**	**267,829**	**11,649**	**64,599,275**
Total liabilities and equity	**377,421,726**	**11,319,556**	**14,663,686**	**14,048**	**403,419,016**

6. SEGMENT REPORTING (continued)

B. BALANCE SHEET – CONSOLIDATED as at December 31st 2016

In RSD '000

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

6. SEGMENT REPORTING (continued)

B. BALANCE SHEET – CONSOLIDATED as at December 31st 2016 (continued)

In RSD '000

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to banks, other financial institutions and the Central bank	7,111,380	256,639	2,454,500	-	9,822,519
Deposits and other liabilities due to customers	322,621,360	10,726,250	11,788,349	-	345,135,959
Subordinated liabilities	6,178,390	-	-	-	6,178,390
Provisions	1,787,294	204,768	28,647	798	2,021,507
Current tax liabilities	-	7,543	746	738	9,027
Deferred tax liabilities	23,592	25,451	4,414	-	53,457
Other liabilities	6,147,567	79,092	86,251	1,419	6,314,329
Total liabilities	**343,869,583**	**11,299,743**	**14,362,907**	**2,955**	**369,535,188**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	(5,584,250)	(953,509)	26,197	8,873	(6,502,689)
Reserves	25,026,243	563,736	170,665	(151)	25,760,493
Non-controlling shares	-	-	66	-	66
Total equity	**59,476,543**	**(389,773)**	**196,928**	**8,722**	**59,292,420**
Total liabilities and equity	**403,346,126**	**10,909,970**	**14,559,835**	**11,677**	**428,827,608**

6. SEGMENT REPORTING (continued)

C. INCOME STATEMENT – CONSOLIDATED for the year ended on June 30st 2017

In RSD '000

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	7,274,735	281,028	352,943	87	7,908,793
Interest expenses	(887,840)	(39,007)	(80,087)	-	(1,006,934)
Net interest income	**6,386,895**	**242,021**	**272,856**	**87**	**6,901,859**
Fee and commission income	3,189,947	87,543	119,101	11,398	3,407,989
Fee and commission expenses	(729,555)	(22,089)	(43,187)	(145)	(794,976)
Net fee and commission income	**2,460,392**	**65,454**	**75,914**	**11,253**	**2,613,013**
Net gains on the financial assets held for trading	39,483	-	-	2,498	41,981
Net gains on the financial assets available for sale	43,886	543	-	-	44,429
Net foreign exchange gain/loss and currency clause effects	(28,857)	14,460	3,846	(1)	(10,552)
Other operating income	709,762	4,763	12,011	15	726,551
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	227,327	33,446	4,419	-	265,192
Total net operating income	**9,838,888**	**360,687**	**369,046**	**13,852**	**10,582,473**
Staff costs	(2,220,023)	(134,864)	(159,024)	(6,994)	(2,520,905)
Depreciation and amortization charge	(291,237)	(16,371)	(20,157)	(14)	(327,779)
Other expenses	(2,940,631)	(134,205)	(168,525)	(3,076)	(3,246,437)
(Loss)/Profit before taxes	**4,386,997**	**75,247**	**21,340**	**3,768**	**4,487,352**
Income tax	-	-	-	-	-
Gain on deferred taxes	1,235,813	-	-	-	1,235,813
Loss on deferred taxes	-	-	-	-	-
Profit/(loss) for the year	**5,622,810**	**75,247**	**21,340**	**3,768**	**5,723,165**

6. SEGMENT REPORTING (continued)

D. INCOME STATEMENT – CONSOLIDATED for the year ended on June 30st 2016

In RSD '000

	Комерцијална банка а.д. Београд	Комерцијална банка а.д. Будва	Комерцијална банка а.д. Бања Лука	КомБанк ИНВЕСТ а.д. Београд	Укупно
Interest income	8,609,961	278,014	358,380	1,084	9,247,439
Interest expenses	(1,825,067)	(56,624)	(77,298)	-	(1,958,989)
Net interest income	**6,784,894**	**221,390**	**281,082**	**1,084**	**7,288,450**
Fee and commission income	2,959,157	69,284	110,034	7,388	3,145,863
Fee and commission expenses	(544,178)	(17,689)	(35,316)	(143)	(597,326)
Net fee and commission income	**2,414,979**	**51,595**	**74,718**	**7,245**	**2,548,537**
Net gains on the financial assets held for trading	28,102	-	-	3,391	31,493
Net gains on the financial assets available for sale	(50,727)	39,964	2,407	22,941	14,585
Net foreign exchange losses and negative currency clause effects	16,470	(2,517)	(408)	(8)	13,537
Other operating income	149,365	4,147	10,302	5	163,819
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(6,246,223)	(128,871)	(22,710)	-	(6,397,804)
Total net operating income	**3,096,860**	**185,708**	**345,391**	**34,658**	**3,622,617**
Staff costs	(2,163,949)	(126,221)	(148,716)	(5,813)	(2,444,690)
Depreciation and amortization charge	(383,835)	(14,806)	(19,208)	(18)	(417,867)
Other expenses	(3,183,019)	(147,117)	(157,302)	(2,988)	(3,490,426)
(Loss)/Profit before taxes	**(2,633,934)**	**(102,436)**	**20,165**	**25,839**	**(2,690,366)**
Income tax	-	-	-	-	-
Gain on deferred taxes	-	-	-	-	-
Loss on deferred taxes	-	-	-	-	-
Profit/(loss) for the year	**(2,633,934)**	**(102,436)**	**20,165**	**25,839**	**(2,690,366)**

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 and liabilities whose carrying values approximate their fair values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (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 interest rate financial instruments

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

8. EQUITY

8.1 Equity is comprised of:

In RSD '000

	June 30 2017	December 31 2016
Share capital	17,191,528	17,191,529
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	11,580,695	19,320,511
Revaluation reserves	6,018,417	6,439,985
Retained earnings	6,965,551	545,985
Loss for the period	-	(7,048,674)
Balance as at June 30	**64,599,275**	**59,292,420**

Capital structure — In RSD '000

	June 30, 2017			December 31, 2016		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	62	17,191,528	17,191,466	63	17,191,529
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**62**	**40,034,612**	**40,034,550**	**63**	**40,034,613**
Retained earnings	**6,965,551**	**-**	**6,965,551**	**545,985**	**-**	**545,985**
Loss for the period	**-**	**-**	**-**	**(7,048,674)**	**-**	**(7,048,674)**
Reserves from profit and other reserves	11,580,691	4	11,580,695	19,320,508	3	19,320,511
Revaluation reserves	4,309,879	-	4,309,879	4,579,456	-	4,579,456
Revaluation reserves (debit balance)	(75,801)	-	(75,801)	(67,159)	-	(67,159)
Translational reserves (Note 8.2)	1,784,339	-	1,784,339	1,927,688	-	1,927,688
Reserves	**17,599,108**	**4**	**17,599,112**	**25,760,493**	**3**	**25,760,496**
Capital	**64,599,209**	**66**	**64,599,275**	**59,292,354**	**66**	**59,292,420**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of June 30, 2017 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

8. EQUITY (continued)

8.1 Equity is comprised of (continued)

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

Share Type	Number of shares June 30 2017	December 31 2016
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at June 30	**17,191,466**	**17,191,466**

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at June 30, 2017 was as follows:

Shareholder	Number of shares	% share
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
East Capital (lux)-Balkan Fund	245,106	1.46
Invej d.o.o., Beograd	230,000	1.37
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02
Stankom co. d.o.o., Beograd	117,535	0.70
UniCredit bank, a.d., Srbija (*custody* account)	105,537	0.63
UniCredit bank, a.d., Srbija	100,879	0.60
Evropa osiguranje a.d, Beograd in bancruptcy	86,625	0.52
Global macro capital opportuni	80,565	0.48
Others (1,194 shareholders)	1,362,863	8.09
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at June 30, 2017 was as follows:

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (610 shareholders)	270,280	72.37
	373,510	**100.00**

8. EQUITY (continued)

8.2. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX losses/gains on the basis of shares in subsidiaries	Cumulative FX losses/gains on the basis of intercompany transactions	Cumulative FX losses/gains on income adjustments to the FX rate	Total
Balance as at January 1, 2016	**1,720,563**	**60,562**	**58,855**	**1,839,980**
Increase	107,191	(16,262)	(3,221)	87,708
Balance as at December 31, 2016	**1,827,754**	**44,300**	**55,634**	**1,927,688**
Increase	(152,330)	10,528	(1,547)	(143,349)
Balance as at June 30, 2017	**1,675,424**	**54,828**	**54,087**	**1,784,339**

8.3. Unrealized dividends

Decision of the General Meeting of Shareholders No. 9760/2c of 27.04.2017 distributed a portion of retained earnings from previous years into dividends for preference shares of RSD 16,808 thousand (interest rate that applied was the one on savings deposits fixed to 12 months of 4.50%). Payment of dividends for preference shares will be made in accordance with the Law on Banks and the Bank's Dividend Policy.

Decision of the General Meeting of Shareholders of the Bank, passed at the same meeting of 27.04.2017 the loss from 2016 was covered with RSD 8,063,183 thousand in the following manner: at the expense of a portion of retained earnings from previous year in the amount of RSD 332,890 thousand and at the expense of the reserves from profit for estimated losses from balance-sheet assets in the amount of RSD 7,730,293 thousand.

9. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	June 30 2017	December 31 2016
Operations on behalf and for the account of third parties	4,363,676	4,466,969
Taken-over future liabilities	32,268,220	35,025,089
Other off-balance sheet items	468,974,844	512,478,491
Total	**505,606,740**	**551,970,549**

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

9.1 Guarantees and letters of credit

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

In RSD '000

	June 30 2017	**December 31 2016**
Payment guarantees	4,186,413	4,336,212
Performance guarantees	5,246,144	6,950,946
Letters of credit	131,785	84,143
Guaranteed bills	-	-
Balance as at June 30	**9,564,342**	**11,371,301**

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

9.2 The breakdown of commitments is provided below:

In RSD '000

	June 30 2017	**December 31 2016**
Unused portion of approved payment and credit card loan facilities and overdrafts	9,786,631	9,430,627
Irrevocable commitments for undrawn loans	11,801,865	12,232,330
Other irrevocable commitments	814,418	1,168,323
Other commitments per contracted value of securities	300,965	822,508
Balance as at June 30	**22,703,879**	**23,653,788**

Undisbursed overdraft credit cards include internal relationship based on business cards of KomBank INVEST with Parent Bank in the amount of RSD 184 thousand.

10. RELATED PARTY DISCLOSURES

The largest portions of the Parent 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 Parent Bank has 3 subsidiaries: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

Legal entities are treated as related parties if one legal entity has control over another legal entity or exercises significant influence over financial and business decisions of another entity. Related parties are also entities under joint control of the same parent entity. The Parent bank discloses the Group's related party relationships according to the methodology of the National Bank of Serbia.

10. RELATED PARTY DISCLOSURES (continued)

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

Related parties transactions were carried out on commercial and market conditions.
Consolidated transactions with affiliated entities are presented in Note 6.

11. EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period Concerning the Parent Bank:

On 27.07.2017 a regular General Meeting of Shareholders was held and a decision was adopted whereby Ernst &Young was selected as the Bank's external auditor.

Events after the Reporting Period Concerning Komercijalna banka a.d.Budva:

Pursuant to the regulations of the Central Bank of Montenegro, it was made a permanent write-off of loans and receivables transferring to the off – balance in the total amount of EUR 3,076,357.79 (RSD 371,774 thousand).

Events after the Reporting Period Concerning Komercijalna banka a.d. Banja Luka:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by Komercijalna banka ad, Banja Luka.

Events after the Reporting Period Concerning KomBank INVEST a.d. Beograd, Investment Fund Management Company:

There were no events after the balance sheet date until the date of these financial statements, which would require any adjustments or additional disclosures by KomBank INVEST a.d., Beograd.

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 Consolidated financial statements as of 30 June 2017.

12. 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 June 30, 2017 and 2016 were as follows:

	NBS official exchange rate		NBS average exchange rate	
	June 30, 2017	2016.	June 30, 2017	June 30, 2016.
USD	105.6461	117.1353	-	-
EUR	120.8486	123.4723	123.4005	122.9159
CHF	110.3842	114.8473	-	-
BAM	61.7889	63.1304	63.0937	62.8459

In Belgrade, on July 31, 2017

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

Savo Petrović
Executive Director for Finance and Accounting

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Miroslav Perić
Member of the Executive Board

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Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011,112/15 i 108/16) it is stated the following:

STATEMENT

I hereby state that, according to my best knowledge, the semi-annual consolidated financial statements as at 30.06.2017 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, inclusive of its companies that are included in the consolidated financial statements.

KOMERCIJALNA BANKA AD BEOGRAD

Savo Petrović
Executive Director for Finance and Accounting

Miroslav Perić
Member of the Bank's Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
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