



REPORT

OF THE BANK FOR THE SECOND QUARTER 2017

BELGRADE, JULY 2017

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REPORT ON THE BANK'S OPERATION FOR THE SECOND QUARTER 2017

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Quarterly report for the second quarter of 2017 represents true review of the development, and performance result of KOMERCIJALNA BANKA AD Beograd generated in the second quarter 2017, as well as in the first six months of 2017

1. OVERVIEW OF KEY PERFORMANCE INDICATORS FOR THE PERIOD 01.01.2017 TO 30.06.2017

1.1. Key performance indicators

ITEM	30.06.17.	31.05.17.	30.04.17.	31.03.17.	2016.	2015.
BALANCE SHEET (000 RSD)						
Balance sheet assets	373.998.539	374.846.201	379.847.021	381.990.129	400.017.469	393.439.874
Off-balance-sheet	473.894.417	487.222.758	491.654.717	497.926.215	520.370.274	580.407.210
RETAIL						
Loans ¹	78.805.620	78.368.633	77.475.103	77.347.207	75.522.465	70.784.957
Deposits ²	230.883.872	231.619.168	232.936.572	234.156.293	231.312.395	218.836.847
CORPORATE						
Loans	62.683.610	63.337.582	66.043.700	68.216.087	74.083.897	89.204.275
Deposits	52.263.384	52.174.953	54.754.969	57.000.776	78.300.568	55.503.896
ITEM	30.06.17.	31.05.17.	30.04.17.	31.03.17.	2016.	2015.
PROFIT&LOSS (000 RSD)						
Profit/loss before tax	4.420.162	3.557.677	2.983.683	2.482.832	-8.377.636	-6.175.885
Net interest income	6.388.834	5.362.874	4.297.982	3.255.754	13.462.734	13.768.082
Net fee income	2.462.778	2.010.062	1.600.041	1.165.502	4.817.314	4.899.947
PROFITABILITY INDICATORS						
ROA	2,31%	2,22%	2,31%	2,55%	-2,05%	-1,56%
ROE – on share capital	22,08%	21,33%	22,36%	24,81%	-20,93%	-15,43%
ROE – on total capital	15,19%	14,80%	15,60%	17,40%	-13,86%	-8,99%
Net interest margin on total assets	3,34%	3,35%	3,33%	3,34%	3,30%	3,48%
Cost / income ratio	60,22%	60,66%	60,73%	59,92%	60,65%	57,85%
Operating expenses (000 RSD) ³	5.330.330	4.472.569	3.581.603	2.649.309	11.086.858	10.799.510
Net expenses from indirect write-off of loans and provisions (000 RSD)	227.327	74.434	61.617	72.775	-14.907.539	-13.008.527
FX risk ratio	4,43%	7,10%	5,81%	5,52%	2,96%	10,60%
Liquidity ratio	5,64	3,23	2,98	2,98	2,86	2,73
Operating cash flow	5.527.032	4.939.732	4.086.963	3.345.570	7.987.047	7.819.613
ITEM	30.06.17.	31.05.17.	30.04.17.	31.03.17.	2016.	2015.
LOANS/DEPOSITS RATIO						
Gross loans/deposits	61,29%	60,69%	60,86%	61,33%	58,74%	67,43%
Net loans/deposits	53,10%	52,41%	52,66%	53,20%	50,70%	57,19%
CAPITAL (000 RSD)						
Capital adequacy	26,99%	27,17%	26,86%	26,69%	26,97%	22,75%
Number of employees	2.764	2.754	2.787	2.823	2.858	2.877
Assets per employee (000 EUR)	1.120	1.110	1.107	1.092	1.134	1.125
Assets per employee (000 RSD)	135.311	136.110	136.292	135.314	139.964	136.779

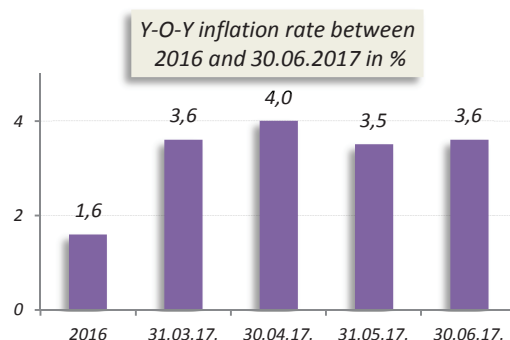
1 Item loans (retail and corporate) does not include other loans and receivables

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

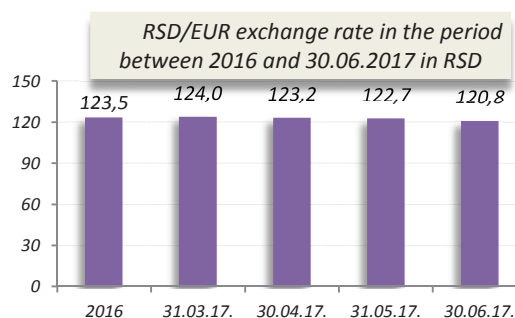
3 Operating expenses also show the cost of salaries, tangible and intangible operating expenses

2. MACROECONOMIC OPERATING ENVIRONMENT IN THE PERIOD BETWEEN 01.01.2017 AND 30.06.2017

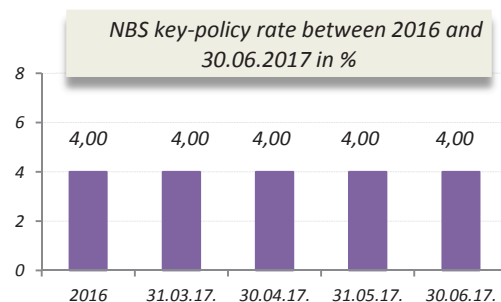
Year on year inflation continued to move within the target limits ($3,0 \pm 1,5\%$), and accounts to 3.6 y.o.y. in 2017, at the end of the second quarter. Growth in inflation, compared to the same period last year is the result of temporary causes, such as the increase in fuel, fruit and vegetables due to adverse weather conditions at the beginning of the year.



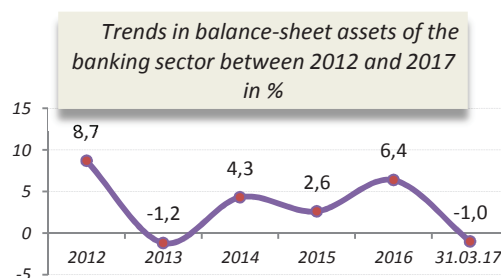
In the second quarter of the current year, the dinar appreciated against euro. The dinar exchange rate stabilized at a value of about 121 dinars for one euro. During the second quarter of the current year, the exchange rate of the dinar rose by 2.2% compared to the end of 2016.



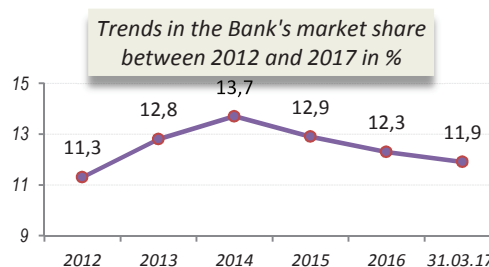
NBS kept its key-policy rate at the level of 4.0% from the end of the second quarter 2017. Such a decision was passed bearing in mind the effects of the monetary policy relaxation so far and the expectation that the inflation will range within the targeted limits. Year-on-year inflation has been within the targeted range from the start of the current year, and this was affected primarily by the price of oil in the international market and the increase in the price of fruit, vegetables and fuel due to adverse weather conditions from the start of the year. Trends in the key-policy rate will depend in the future on the trends in the international financial market and the trends in the price of commodities in the world market.



Banking sector in the Republic of Serbia generated a decrease in balance sheet assets in the second quarter of this year compared to the previous year by 1,0%. In April this year Alfa Banka changed its business name in Jubanka ad, while in June Marfin Banka change its business name in Ekspobank ad.



Continuation of the careful management of the loan portfolio and reduced approved loans resulted in the bank decreasing the share in total balance sheet assets of the banking sector to the level of 1.9% (-0,4 pp) in the second quarter of 2017.



3. KEY PERFORMANCE INDICATORS BETWEEN 01.01.2017 AND 30.06.2017

ITEM	30.06.17.	31.05.17.	30.04.17.	31.03.17.	2016.	2015.
BALANCE SHEET (000 RSD)						
Balance-sheet assets	373.998.539	374.846.201	379.847.021	381.990.129	400.017.469	393.439.874
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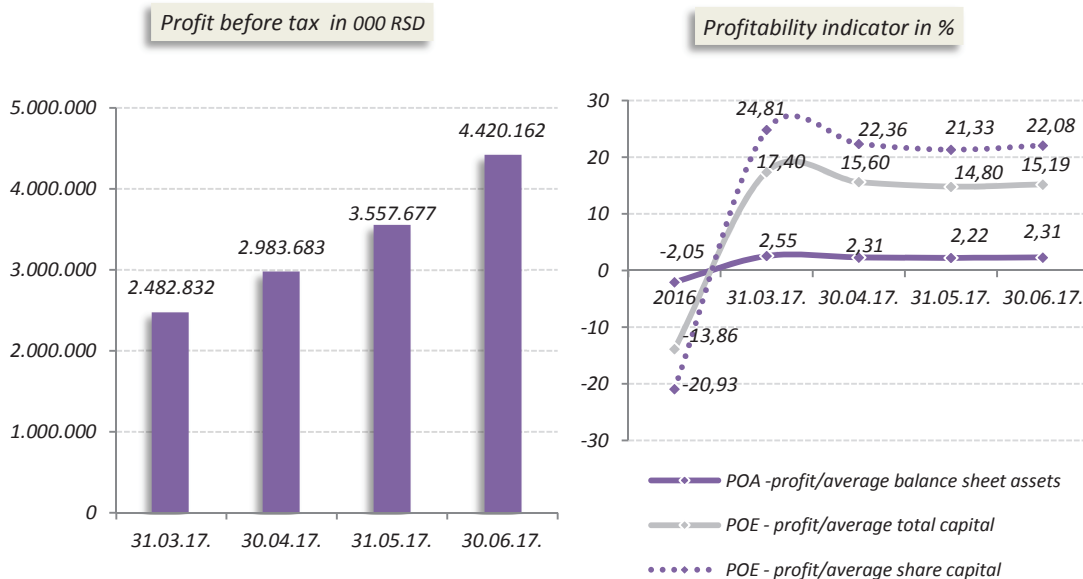
As of 31.06.2017 the balance-sheet assets of the Bank amounted to 373.998,5 million and were reduced by 26.018,9 million or 6.5% compared to the end of.

Off-balance-sheet assets went down by 8.9% in the second quarter 2017 and at the end of June this year amounts to 473.894,4 million dinars.

In the first six months of 2017 the Bank reduced its indebtedness through credit lines in the amount of 2.898,6 million, which is below the balance at the end of 2016 (-22,3%). At the same time the Bank recorded a decrease in deposits (without other liabilities and credit lines) in the amount of RSD 27.314,1 million or 8.6%. In the structure of this change, corporate deposits decreased by RSD 26.037,2 million, while retail deposits decreased in the amount of RSD 428.5 million. These changes contain also the effect of dinar appreciation against the euro (2.2%) and Swiss franc (4.0%).

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Operating cash flow	5.527.032	4.939.732	4.086.963	3.345.570	7.987.047	7.819.613

⁴ Operating expenses include the cost of salaries, tangible and intangible operating expenses.



The clean-up of the loan portfolio resulted in a high level of loan impairments but also in the growth of NPL coverage by impairments in the previous year (over 75% at the end of 2016). The bank generated profit in the first six months of this year, compared to the same period last year when it generated negative result. Generated profit of the bank in the period 01.01 to 30.06.2017 before tax amounts to RSD 4.420,2 million, compared to the same period last year when it generated loss to the amount of RSD 2.645,6 million. Such change in the bank's result generated the return on total capital of 15.19%, i.e. return on share capital of 22.08% in the second quarter of 2017.

Trends in profit in the second quarter 2017, compared to the same period the previous year, was mostly affected by the end of the court dispute in favour of the Bank, in the amount of RSD 566.4 million, net income from reduction in the impairments of financial assets – in the amount of 227.3 million, unlike the previous year, when an expense of RSD 6.246,2 million was generated. Of the positive effects it is important to emphasise also the increase in net profit from financial assets available for sale in the amount of RSD 94.6 million. A profit of RSD 43.9 million was generated in the reporting period, while in the same period last year there was a loss of RSD 50.7 million. A growth in net income from financial assets available for trade to the amount of RSD 11.4 million was recorded as well.

As a result of withdrawal of deposits and a decrease in the volume of operations, in the first six months of 2017 the assets per employee in the Bank went down from RSD 140.0 million (31.12.2016) to 135.3 million as of 30.06.2017.

At the end of the second quarter of the current year the cost income ratio (CIR) was 60.22%, while it was 60.65% at the end of 2016

4. BALANCE SHEET AS OF 30.06.2017

4.1. The Bank's assets as of 30.06.2017

(000 RSD)				
No.	ITEM	30.06.2017.	31.12.2016.	INDEX
1	2	3	4	5=3/4
1	Cash and funds at the central bank	48.163.638	55.153.209	87,33
2	Pledged financial assets	-	-	-
3	Financial assets at fair value through balance-sheet intended for trade	2.444.835	242.920	1.006,44
4	Financial assets initially recognized at fair value through profit&loss	-	-	-
5	Financial assets available for sale	128.246.890	136.123.853	94,21
6	Financial assets held to maturity	-	-	-
7	Loans and receivables from banks and other financial organisations	34.922.924	40.601.413	86,01
8	Loans and receivables from customers	141.862.687	150.411.409	94,32
9	Changes in fair value of items that are subject to risk hedging	-	-	-
10	Receivables from financial derivatives intended for risk hedging	-	-	-
11	Investment in affiliates and joint ventures	-	-	-
12	Investment in subsidiaries	2.611.859	2.611.859	100,00
13	Intangible assets	323.055	362.507	89,12
14	Property, plant and equipment	5.718.325	5.856.458	97,64
15	Investment property	2.084.645	2.217.816	94,00
16	Current tax assets	-	-	-
17	Deferred tax assets	1.768.775	-	-
18	Fixed assets intended for sale and assets from discontinued operation	181.081	183.170	98,86
19	Other assets	5.669.825	6.252.855	90,68
	TOTAL ASSETS (from 1. to 19 .)	373.998.539	400.017.469	93,50

Balance sheet assets of the bank, as the end of the second quarter of 2017, decreased compared to 2016 by RSD 26.018,9 million or 6.5%.

The structure of these balance-sheet items is dominated by an increase in financial assets at fair value intended for trade, which increased at the end of the second quarter 2017 by RSD 2.201,9 million or 906.4%. This is the result of reinvesting a portion of due dinar securities available for sale – RS T-bills (RSD 6.795,5 million) in FX securities intended for trade – T-bills and bonds of the Republic of Serbia.

Loans and receivables from banks and other financial organisations (according to the new balance-sheet scheme) decreased by RSD 5.678,5 million, or 14.0%, while loans and receivables from customers decreased by RSD 8.548,7 million. As of 31.06.2017 the total lending and receivables from customers and banks were RSD 176.785,6 million, which makes up 47.3% of the total balance-sheet assets.

The total balance of financial assets available for sale decreased by RSD 7.877,0 million (-5.8%) compared to the end of 2016.

During the first six months of the current year the item cash and assets with the central bank recorded a decrease of RSD 6.989,6 million, or 12.7%. The decrease in this item was mostly caused by a decrease in the balance of the drawing account of RSD 5.798,3 million and cash in hand in dinars of RSD 609.9 million. Other items (cash in hand in FX currency, FX required reserve and other FX cash funds) decreased by RSD 581.4 million.

4.2. The Bank's liabilities as of 30.06.2017

(000 RSD)				
No.	ITEM	30.06.2017.	31.12.2016.	INDEX
1	2	3	4	5=3/4
1	Financial liabilities at fair value through P&L intended for trade	-	-	-
2	Financial liabilities initially recognised at fair value through P&L	-	-	-
3	Liabilities from financial derivatives intended for risk hedging	-	-	-
4	Deposits and other liabilities to banks, other financial organisations and central bank	5.655.581	7.834.962	72,18
5	Deposits and other liabilities to other customers	294.511.663	322.621.360	91,29
6	Changes in fair value of items that are subject to risk hedging	-	-	-
7	Issued treasury securities and other borrowed assets	-	-	-
8	Subordinated debt	6.050.242	6.178.390	97,93
9	Provisions	1.241.184	1.787.294	69,44
10	Liabilities for assets intended for sale and assets from discontinued operations	-	-	-
11	Current tax liabilities	-	-	-
12	Deferred tax liabilities	576.374	23.592	2.443,09
13	Other liabilities	5.294.225	6.147.569	86,12
	TOTAL LIABILITIES (from P 1 to P 13)	313.329.269	344.593.167	90,93
	CAPITAL			-
15	Share capital	40.034.550	40.034.550	100,00
16	Treasury shares	-	-	-
17	Profit	5.655.975	349.698	1.617,39
18	Loss	-	8.063.183	-
19	Reserves	14.978.745	23.103.237	64,83
20	Unrealized losses	-	-	-
21	Non-controlling stakes	-	-	-
22	TOTAL CAPITAL (from 15 to 21)	60.669.270	55.424.302	109,46
	TOTAL LIABILITIES (from P 1 to P 21)	373.998.539	400.017.469	93,50

The Bank's total liabilities at the end of the second quarter 2017 were RSD 313.329,3 million and account for 83.8% of total liabilities (31.12.2016: 86.1%). At the same time, total capital, with RSD 60.669,3 million accounts for 16.2% of total liabilities (31.12.2016: 13.9%). Total liabilities went down compared to the end of the previous year by RSD 31.263,9 million or 9.1%, while total capital increased by RSD 5.245,0 million or 9.5%.

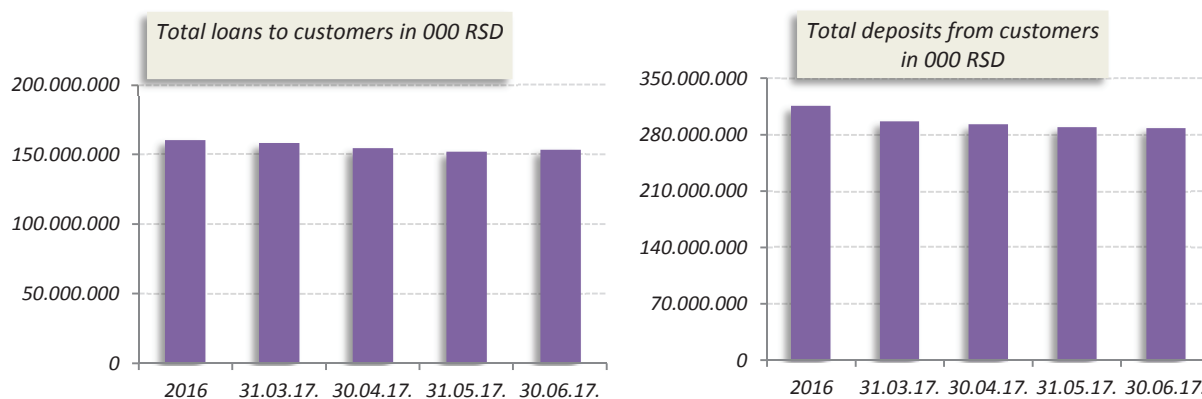
The item deposits and liabilities to customers decreased in the reporting period by RSD 28.109,7 million or 8.7%, while deposits and liabilities to banks, other financial institutions and central bank decreased compared to the end of last year by RSD 2.179,4 million or 27.8%. The item of other liabilities decreased by RSD 853.3 million or

13.9%. Subordinating liabilities falling due on 30.12.2017, amounting to EUR 50.0 million were drawn down at the end of 2011 with the aim of increasing the Bank's regulatory capital.

Foreign credit lines decreased in the first six months of 2017 in the net equivalent of RSD 2.898,6 million, so the balance of dinar equivalent of these liabilities amounted to RSD 10.085,6 million at the end of the second quarter,

In the structure of balance-sheet liabilities total deposits and other liabilities of banks and customers amount to RSD 300.167,2 million, accounting for 80.3% of the total balance sheet liabilities and recording decrease compared to the end of the last year to the amount of RSD 30.289,1 million or 9.2%.

4.3. Loans to customers and deposits from customers as of 30.06.2017

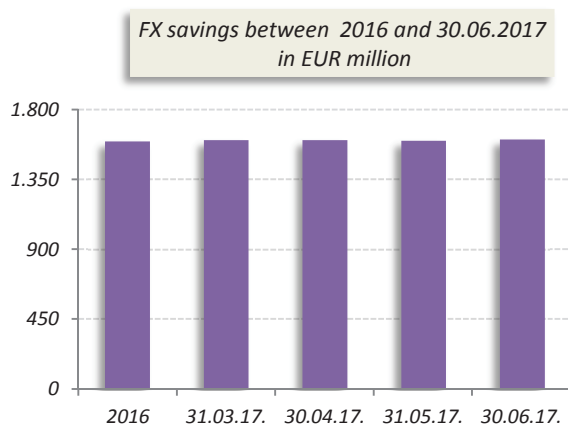


The most important category of balance-sheet assets, loans to customers (excluding other lending and receivables) recorded a decrease of RSD 6.912,3 million at the end of the second quarter. The level of approved loans to customers, at the end of the second quarter 2017 was under a significant effect of retail lending, which reached RSD 78.805,6 million, or an increase of 4.3%, while corporate lending decreased by RSD 11.400,3 million or 15.4%. Loans to banks and other financial institutions also recorded an increase of RSD 1.204,9 million or 11.3%. Total loans to banks, other financial organisations and customers, as of 31.06.2017, amount to RSD 153.323,7 million and decreased compared to the end of the previous year by 4.3%.

		(000 RSD)		
No.	ITEM	BALANCE AS OF 30.06.2017	BALANCE AS OF 31.12.2016.	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1.+2.+3.)	153.323.724	160.235.984	95,69
1.	Corporate	62.683.610	74.083.897	84,61
2.	Retail	78.805.620	75.522.465	104,35
3.	Banks and financial organisations	11.834.493	10.629.623	111,34
II	DEPOSITS FROM CUSTOMERS (1.+2.+3.)	288.737.270	316.051.384	91,36
1.	Corporate	52.263.384	78.300.568	66,75
2.	Retail	230.883.872	231.312.395	99,81
3.	Banks and financial organisations	5.590.015	6.438.421	86,82

NOTE: loans to customers and deposits from customers according to the previous balance-sheet scheme

Change in deposits from banks, other financial organisations and customers (without other liabilities and credit liens) in the second quarter of 2017 came mostly as a result of decrease in corporate deposits (RSD 26.037,2 million) decrease in deposits from banks and other financial organisations (equivalent of RSD 848,4 million) and decrease in retail deposits (equivalent of RSD 428.5 million). At the end of the second quarter of 2017, as part of the changes referred to above, retail FX savings increased by EUR 12.6 million.



With its reputation of a safe and stable bank in the Serbian market, the Bank managed, in the observed period, to increase its FX savings deposits by EUR 12.6 million or 0.8%.

Despite a decrease in borrowing interest rates in both the banking sector and the Bank, FX savings in the Bank increased in the first six months 2017 and reached an amount of EUR 1.603,2 million. Depositor's trust enabled the Bank to maintain its leading position in the Serbian banking sector in terms of the volume of received FX savings, image and recognition.

4.4. Off-balance-sheet items as of 30.06.2017

(000 RSD)

No.	ITEM	BALANCE AS OF 30.06.2017.	BALANCE AS OF 31.12.2016.	INDEX
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS FOR AND ON BEHALF OF THIRD PARTIES	4.313.532	4.418.079	97,63
2	ASSUMED FUTURE LIABILITES	29.322.830	32.543.235	90,10
3	RECEIVED GUARANTEES FRO FUTURE LIABILTIIES	0	0	-
4	DERIVATIVES	0	0	-
5	OTHER OFF-BALANCE-SHEET ITEMS	440.258.055	483.408.961	91,07
	TOTAL	473.894.417	520.370.275	91,07

Total off-balance sheet assets of the bank decreased by RSD 46.475,9 million compared to the end of the previous year. As of 31.06.2017 assumed future liabilities totalled RSD 29.322,8 million, which is an decrease of RSD 3.220,4 million or 9.9% compared to the last year, mostly due to decrease in performance guarantees in the country (RSD 1.819,1 million or 41.1%) and taken irrevocable liabilities for undrawn loans and advances in foreign currency (RSD 1.170,5 million or 99.,6%). Other off-balance-sheet items decreased by RSD 43.150,9 million or 8.9%. Around two thirds of this amount refers to decrease in off-balance sheet records arising from received tangible assets (residential and commercial real-estate) and other instruments of security.

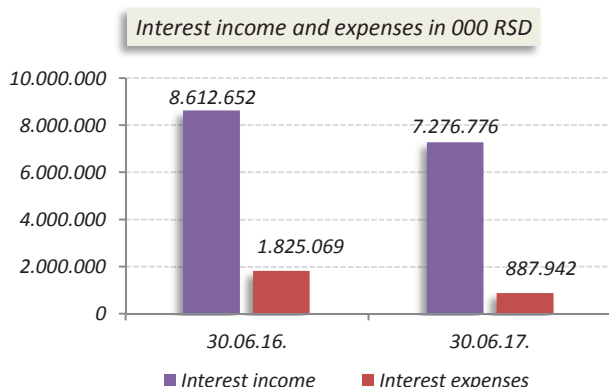
5. PROFIT&LOSS FOR THE PERIOD 01.01.2017 TO 30.06.2017

(000 RSD)

No.	ITEM	30.06.2017.	30.06.2016.	INDEX
1	2	3	4	5=(3:4)*100
OPERATING INCOME AND EXPENSES				
1.1.	Interest income	7.276.776	8.612.652	84,49
1.2.	Interest expenses	887.942	1.825.069	48,65
1.	Net interest income/expenses	6.388.834	6.787.583	94,13
2.1.	Fee and commission income	3.193.406	2.961.541	107,83
2.2.	Fee and commission expenses	730.628	545.596	133,91
2.	Net fee and commission income/expenses	2.462.778	2.415.945	101,94
3.	Net gains/loss from financial assets intended for trade	39.483	28.102	140,50
4.	Net gains/loss from risk hedging	-	-	-
5.	Net gains/loss from financial assets initially recognised at fair value through P&L	-	-	-
6.	Net gains/loss from financial assets available for sale	43.886	-50.727	-86,51
7.	Net income/expenses from exchange rate difference and the effects of agreed currency clause	-17	1.199	-1,42
8.	Net gains/loss from investment into affiliates and joint ventures	306	-	-
9.	Other operating income	709.456	149.365	474,98
10.	Net income/expenses from reduction in impairment of financial assets and credit risk bearing off-balance-sheet items	227.327	-6.246.223	-3,64
11.	TOTAL NET OPERATING INCOME	9.872.053	3.085.244	319,98
12.	TOTAL NET OPERATING EXPENSES			-
13.	Cost of salary, allowance and other personnel expenses	2.220.023	2.163.940	102,59
14.	Depreciation costs	291.237	383.835	75,88
15.	Other expenses	2.940.631	3.183.019	92,38
16.	PROFIT BEFORE TAX	4.420.162	-	-
17.	LOSS BEFORE TAX		2.645.550	-
18.	Profit tax	-	-	-
19.	Profit from deferred tax	1.235.813	-	-
20.	Loss from deferred tax	-	-	-
21.	PROFIT AFTER TAX	5.655.975	-	-
22.	LOSS AFTER TAX		2.645.550	-
23.	Net profit from discontinued operations	-	-	-
24.	Net loss from discontinued operations	-	-	-
25.	RESULT FOR THE PERIOD - PROFIT	5.655.975	-	-
26.	RESULT FOR THE PERIOD - LOSS	-	2.645.550	-
27.	Profit belonging to parent bank			
28.	Profit belonging to owners without controlling rights			
29.	Loss belonging to the parent banks			
30.	Loss belonging to owners without controlling rights			
31.	Earnings per share			
32.	Basic earnings per share			
33.	Reduced (diluted) earnings per share			

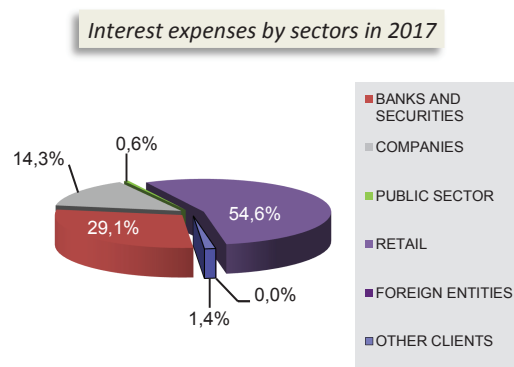
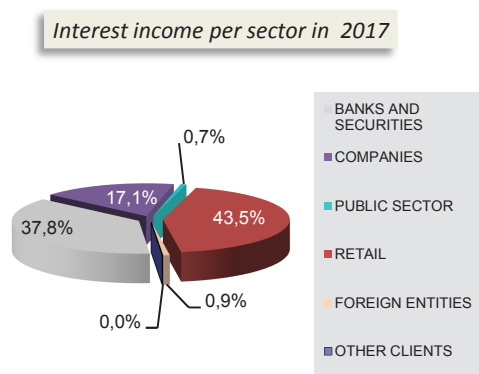
Based on the conclusion of the bank's Board of Directors and performed analysis of the possibility to use tax reliefs provided for by the Corporate Profit Tax Law and projected profit as established by the Strategy and Business Plan of the Bank Covering 2017-2019, at the end of the second quarter of this year there was booking of deferred taxable assets arising from a portion of tax losses from earlier years to the amount of RSD 1.235,8 million. After the booking referred to above, profit from regular operations increased (RSD 4.420,2 million) by this amount of profit from created deferred tax assets, subsequent to which the result of a period – total profit at the end of the second quarter of this year amounts to RSD 5.656 million.

5.1. Interest income and expenses



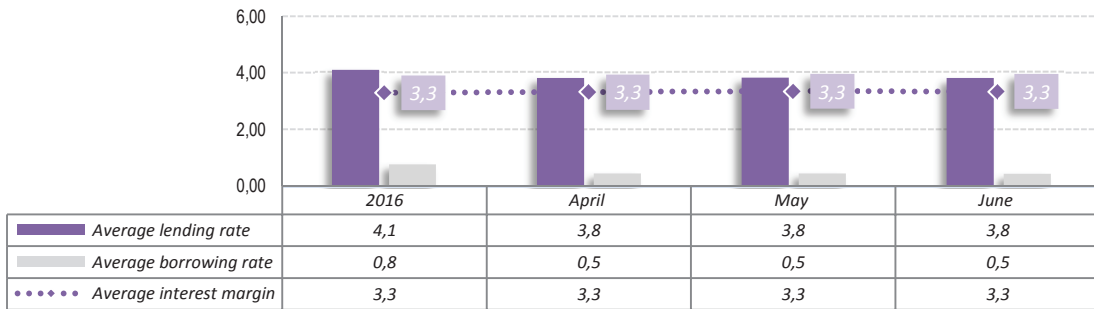
Interest gains are RSD 6.388,8 million, which is a decrease of 5.9% compared to the same period last year.

Compared to the end of the second quarter of last year, interest gains are less by RSD 1.335,9 million or 15.5%, while interest expenses decreased by RSD 937.1 million or 51.3%.



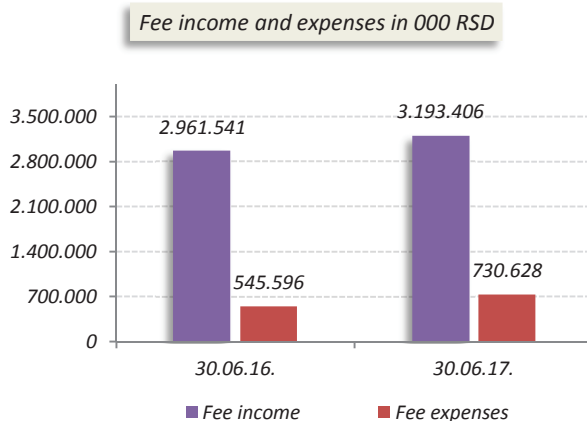
Interest income from retail operations accounts for the highest share in interest income (RSD 3.164,6 million or 43.5%). Interest expenses are also dominated by interest on retail deposits (RSD 485.2 million or 54.6%) which is mostly the result of interest expense from received FX savings.

Trends in interest margin on total assets in %



Average lending interest at the end of the second quarter 2017 was 3.8%, and average borrowing rate was 0.5%, so that the average interest margin of the bank in the second quarter of 2017 amounted 3.3% retaining the same value in the observed period.

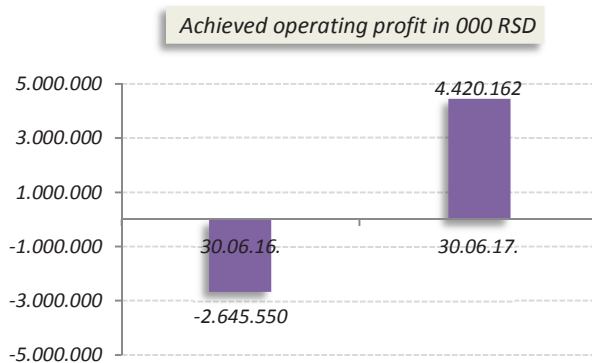
5.2. Fee income and expenses



Compared to the same period last year, fee and commission income for banking services is 231.9 million dinars or 7.8% higher, but fee and commission expenses increased by RSD 185.0 million or 33.9%.

Fee and commission gains for the second quarter 2017 was RSD 2.462,8 million and was 46.8 million dinars higher than in the same period previous year..

5.3. Achieved operating profit



After a correction in NPLs last year, in 2017 the Bank started with a much better loan portfolio. In the period between January 1st and 30 June 2017 an operating profit (before tax) was achieved to the amount of RSD 4.420,2 million, as opposed to the last year when a loss of RSD 2.645,6 million was recorded.

Realized operating profit secured for the Bank, in the first six months of 2017, return on equity of 15.2%, and return on average assets of 2.3%.

PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS

No.	ITEM	PRESCRIBED	31.06.2017.	2016.
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); * COMBINED PROTECTIVE LEVEL OF CAPITAL	MIN 8%+6,7pp*	26,99	26,97
2.	RATIO OF INVESTMENT INTO ENTITIES OUTSIDE THE FINANCIAL SECTOR AND INTO FIXED ASSETS	MAX 60%	17,61	17,47
3.	LARGE EXPOSURE RATIO	MAX 400%	39,15	38,48
4.	FX RISK RATIO	MAX 20%	4,43	2,96
5.	LIQUIDITY RATIO	MIN 0,8	5,64	2,86

6. DESCRIPTION OF KEY RISKS AND THREATS THE COMPANY IS EXPOSED TO

A detailed description of key risks and threats the Bank is exposed to in the upcoming period is given in the chapter Risk Management, Notes to Financial Statements.

7. ALL IMPORTANT TRANSACTIONS WITH RELATED PERSONS

As of 30.06.2017, the persons related to the bank are:

1. Komercijalna Banka a.d. Budva, Montenegro,
2. Komercijalna Banka a.d Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d Belgrade,
4. One legal entity (CEDENS company doo Beograd) and a number of natural persons, according to the provisions of the Article 2 of the Law on Banks, in part that regulates the term of „persons related to the bank“.

Total exposure to the persons related to the bank amounted to RSD 552.513,0 K as of 30.06.2017, compared to the regulatory capital of RSD 44.338.769,7 K, accounted for 1.25% (maximal value of all investments in persons related to the bank amounts to 25% of the capital, according to the Law on Banks).

As of 30.06.2017, the major portion of exposure to the persons related to the bank amounted to RSD 409.649,7 K, or 0.92% of the bank's capital, and refers to loans to KombankInvest ad Beograd.

Pursuant to the Article 37 of the Law on Banks, the bank did not approve loans to the persons related to the bank under better conditions than those applying to the loans approved to other persons, who are not related to the bank.

More detailed overview of the bank's relation to the persons related to the bank is presented in the Item „Related Persons“, Notes to Financial Statements.

8. DESCRIPTION OF ALL MAJOR EVENTS AFTER THE END OF THE BUSINESS YEAR

After the end of the business year, and within the second quarter of 2017, of the major business events, we would like to single out the regular General Meeting of Shareholders, on 25.01.2017, and on 27.04.2017. At the General Meeting of the Bank's Shareholders, held on 25.01.2017, the following decisions were made:

1. Decision on the sale of shares from the Bank's portfolio in the following legal entities: Jubmes Banka ad Beograd, Politika ad Beograd, Kompanija Dunav osiguranje ad Beograd, Belgrade Stock Exchange and Money Market Belgrade,
2. Information with reference to Article 77 of the Law on Banks,
3. Report in accordance with Article 78 of the Law on Banks,

At the General Meeting of the Bank's Shareholders held on 27.04.2017, the following decisions were made:

1. Decision on adopting the Strategy and Business Plan for the Bank for the period 2017 – 2019.
2. Annual report for the Bank for 2016 and the Report and opinion of the external auditor on performed audit of regular financial statements of Komercijalna Banka AD Beograd for 2016:
 - a. Decision on Adoption of Annual Report of Komercijalna Banka AD Beograd and regular financial statements with the external auditor's opinion for 2016,
 - b. Decision on distribution of a portion of retained earnings from previous years into dividends for preferred shares,
 - c. Decision on covering the Bank's loss from 2016.
3. Decision on adopting the Annual Report and consolidated financial statements of the Group Komercijalna Banka AD Beograd, with the external auditor's opinion for 2016,
4. Decision on amendments and supplements to the Articles of Association of Komercijalna Banka AD Beograd (revised text).

By the end of June (27.06.2017), new session of the Bank's GMS was scheduled to be held on July 27th 2017. The following decisions were proposed to be adopted at this session of the General Meeting of Bank's Shareholders:

1. Decision on Appointment of the Bank's 2017 External Auditor
2. Decision on Including Revaluation Reserves and Other Non-Realized Profits into Core Share Capital of the Bank.

Description of events upon the fiscal year end has been presented in the Item 6 of the Notes to Financial Statements for the Second Quarter of 2017

9. KEY DATA ON BUSINESS PLAN PERFORMANCE FOR 2017

Implementation of the Strategy and Business Plan for the first six months of 2017 was carried out against the background of the following macroeconomic operating conditions, of which we would like to emphasise the following:

- GDP growth of 1,2% in the second quarter 2017 compared to the same period the previous year (Statistics Office, evaluation⁵), plan for the current business year is growth of 3.0% (IFRS),

-the dinar exchange rate appreciation around the level of 121 dinar for 1 euro (planned dinar exchange rate compared to the euro at the end of the current year: 1 euro = 123.50 dinars (KB), realised as of 1 euro 30.06.2017: 1 euro = 120, 85 dinars),

- Inflation rate (y-o-y rate, March 2017/June 2016) is 3.6% and has a growing trend and is currently within the targeted rate for June this year (3.0+/-1.5%).

⁵ Quarterly gross domestic product in constant prices-flash estimate, the second t quarter of 2017, Statistics Office

During the second quarter of 2017, according to the data of the Ministry of Finance, there was y-o-y growth in economic activity of 1.2%⁶. The second quarter growth resulted mostly from the services sector. Positive contribution came from the industrial production. Negative trends were recorded in agriculture and construction industry. Total industrial production in the second quarter recorded fall of 0.1% y.o.y. Manufacturing industry recorded 5.4% growth y.o.y compared to the same period last year. In the same period, electricity and power production and distribution sector recorded negative trends.

In manufacturing industry, the most extensive growth was recorded in the production of core metals and rubber and plastic products, production of machines, as well as chemical and food industry. Very important businesses recording the fall of production are oil and automobile industry. Turnover of goods in retail trade in the first four months of this year increased by 2.4%⁷. Since the beginning of this year there have been a growing number of issued building approvals (99.6%). Total foreign trade in the first four months of 2017 accounted for 10.9 billion EUR⁸, an increase of 1.2 billion EUR.

NBS FX reserved amounted to 9.67 billion EUR at the end of current year⁹. At the end of May 2017, sovereign debt amounted to 24.1 billion EUR¹⁰ or 67.1% of the GDP. In the first five months of this year FDI amounted to EUR 768 million¹¹, and the projection for the entire year has been revised upwards, and amounts to euro 1.7 billion. Relaxation of the NBS monetary policy led to the fall in interest rates on local currency corporate and retail loans (fall by 10.7 and 9.7 p.p.¹²). Interest rates on newly approved dinar loans amounted to 5.7% for corporate and 10.9% for retail sector in May. The banks generated the growth of credit activity in May this year of 3.9% y.o.y, with the retail growth amounting to 12.1% y.o.y and corporate loans fell by 1.8% y.o.y¹³. Until the end of 2017 it is expected for credit activity of banks to continue to grow, given the expected growth of economic activity, competition among banks, relaxation of monetary policy and low interest rates on the international money market.

9.1. Planned and realized balance-sheet figures for the second quarter 2017

The Bank's total balance-sheet assets, at the end of the second quarter 2017, was RSD 373.998,5 and is lower by 2.831,2 million dinar lower, or 0.8% compared to the planned value for the year end. Significant positive departures from planned values were recorded in item securities, as realized value is by RSD 24.583,9 million, or 23.2% higher than planned, and loans to banks and other financial organisations, realised value is RSD 9.952,0 million higher than the plan.

Lower realized values compared to the planned ones were recorded in corporate loans to, a decrease of RSD 20.280,4 million (-24.4%) and retail loans, with recorded decrease in the amount of RSD 5.306,4 million compared to the planned value.

In the structure of balance-sheet liabilities there was a positive departure from the planned values in other liabilities (RSD 7.748,0 million), while realization below plan was recorded in deposits (RSD 12.123,7 million, observed in comparison to the previous balance sheet scheme). This was mostly contributed by a decrease in corporate deposits (RSD 7.004,6 million), decrease in retail deposits (RSD 3.576,1 million) and decrease in deposits from banks and other financial organisations (RSD 1.543,0 million) compared to the planned values.

Trends in dinar exchange rate - appreciation (2.2% against EUR), increased, to a certain extent, negative departures of realized compared to planned values.

⁶ Current macro-economic trends June 2017, RS Ministry of Finance

⁷ Current macro-economic trends, June 2017, RS Ministry of Finance

⁸ Current macro-economic trends, June 2017, RS Ministry of Finance

⁹ NBS

¹⁰ NBS

¹¹ Macro-economic trends in Serbia, July 2017, NBS

¹² Macro-economic trends in Serbia, July 2017, NBS

¹³ Macro-economic trends in Serbia, July 2017, NBS

Realized and planned items in assets and liabilities of the balance-sheet as of 30.06.2017 have the following values:

No.	ITEM	(000 RSD)		INDEX
		Planned 31.12.2017	Realized 30.06.2017.	
1	2	3	4	5=4/3
ASSETS				
1.	Cash and cash equivalents	60.956	48.164	79,01
2.	Securities	106.108	130.692	123,17
3.	Loans and deposits to customers (3.1.+3.2.+3.3.)	168.959	153.324	90,75
3.1.	Companies	82.964	62.684	75,56
3.2.	Retail	84.112	78.806	93,69
3.3.	Banks and financial organisations	1.883	11.834	628,66
4.	Other assets	40.807	41.819	102,48
5.	TOTAL ASSETS (1.+2.+3.+4.)	376.830	373.999	99,25
LIABILITIES				
1.	Deposits	300.861	288.737	95,97
1.1.	Companies	59.268	52.263	88,18
1.2.	Retail	234.460	230.884	98,47
1.3.	Banks and financial organizations	7.133	5.590	78,37
2.	Other liabilities	16.844	24.592	146,00
3.	Liabilities (1.+2.)	317.705	313.329	98,62
4.	Total capital	59.125	60.669	102,61
5.	TOTAL LIABILITIES (3.+4.)	376.830	373.999	99,25

9.2. Planned and realized P&L items for the period 01.01.-30.06.2017

No.	ITEM	(000 RSD)		INDEX
		Planned 01.01.-30.06.2017	Realized 01.01.-30.06.2017	
1	2	3	4	5=4/3
1.1.	Interest income	7.456	7.277	97,6
1.2.	Interest expenses	-1.101	-888	80,6
1.	Interest gains (1.1.-1.2.)	6.354	6.389	100,5
2.1.	Fee and commission income	3.310	3.193	96,5
2.2.	Fee and commission expenses	-653	-731	112,0
2.	Fee and commission gains (2.1. -2.2.)	2.657	2.463	92,7
3.	Net exchange rate difference and revaluation (FX clause)	0	0	-
4.	Net other operating income and expenses	135	672	499,3
5.	Net expenses/income from indirect write-off of loans and provisions	-1.650	227	-13,8
6.	Operating expenses	-5.409	-5.330	98,6
7.	OPERATING PROFIT	2.088	4.420	211,7

In P&L items, considerable departure was recorded in net cost of indirect write-off of loans (realized net income was RSD 227.3 million, while planned expenses were RSD 1.649,8 million). Realized interest gains were higher than planned by RSD 34.5 million. Fee and commission gains were lower than planned by 194.4 million; Operating expenses were lower than planned in the same period by RSD 78.2 million, as a result of reduction in operating expenses.

Due to a decrease in net expenses as a result of a decrease in impairment of financial loans and credit risk bearing off-balance-sheet items, as well as a reduction in other operating expenses in the second quarter 2017, the Bank realized profit before tax of RSD 4.420,2 million, which is 111.7% above plan for the period 1 January to 30 June 2017.

Signed on behalf of Komercijalna Banka ad Beograd:

L. Poman


S. Subar

BALANCE SHEET

on 30.06.2017.

(in RSD thousand)

POSITION 1	ADP code 2	Amount	
		Current year amount 3	Previous year amount 4
ASSETS			
Cash and balances with central banks	0001	48.163.638	55.153.209
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	2.444.835	242.920
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	128.246.890	136.123.853
Financial assets held to maturity	0006	-	-
Loans and advances to banks and other financial institutions	0007	34.922.924	40.601.413
Loans and advances to clients	0008	141.862.687	150.411.409
Changes in fair value of items that are the subject of hedging	0009	-	-
Receivables from financial derivatives held for hedging	0010	-	-
Investments in associates and joint ventures	0011	-	-
Investments in subsidiaries	0012	2.611.859	2.611.859
Intangible assets	0013	323.055	362.507
Property, plant and equipment	0014	5.718.325	5.856.458
Investment property	0015	2.084.645	2.217.816
Current tax assets	0016	-	-
Deferred tax assets	0017	1.768.775	-
Non-current assets held for sale and assets of discontinued operations	0018	181.081	183.170
Other assets	0019	5.669.825	6.252.855
TOTAL ASSETS (from 0001 to 0019)	0020	373.998.539	400.017.469
LIABILITIES			
Financial liabilities at fair value through profit or loss held for trading	0401	-	-
Financial liabilities initially recognized at fair value through profit or loss	0402	-	-
Liabilities from financial derivatives held for hedging	0403	-	-
Deposits and other liabilities to banks, other financial institutions and the central bank	0404	5.655.581	7.834.962
Deposits and other liabilities to other clients	0405	294.511.663	322.621.360
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.050.242	6.178.390
Provisions	0409	1.241.184	1.787.294
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	576.374	23.592
Other liabilities	0413	5.294.225	6.147.569
TOTAL LIABILITIES (from 0401 to 0413)	0414	313.329.269	344.593.167
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	5.655.975	349.698
Loss	0418	-	8.063.183
Reserves	0419	14.978.745	23.103.237
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	60.669.270	55.424.302
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	373.998.539	400.017.469



INCOME STATEMENT

from to

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.-30.06.
1	2	3*	4**	5	6
Interest income	1001	3 541 635	7 276 776	4 314 398	8 612 652
Interest expenses	1002	408 555	887 942	907 146	1 825 069
Net interest profit (1001-1002)	1003	3 133 080	6 388 834	3 407 252	6 787 583
Net interest loss (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1 684 200	3 193 406	1 555 605	2 961 541
Fee and commission expenses	1006	386 924	730 628	303 985	545 596
Net fee and commission income (1005 - 1006)	1007	1 297 276	2 462 778	1 251 620	2 415 945
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains on financial assets held for trading	1009	11 179	39 483	10 003	28 102
Net loss on financial assets held for trading	1010	-	-	-	-
Net gains from risk protection	1011	-	-	-	-
Net loss from risk protection	1012	-	-	-	-
Net gains on financial assets that are initially recognized at fair value through profit or loss	1013	-	-	-	-
Net losses on financial assets that are initially recognized at fair value through profit or loss	1014	-	-	-	-
Net profit from sale of securities	1015	454	43 886	-	-
Net loss from sale of securities	1016	-	-	7 430	50 727
Net income from foreign exchange differences and effects of contracted foreign currency clause	1017	198	-	25 604	1 199
Net foreign exchange losses and the effects of contracted foreign currency clause	1018	-	17	-	-
Net gains on investments in associates and joint ventures	1019	-	306	-	-
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	83 799	709 456	79 091	149 365
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1022	154 552	227 327	-	-
Net impairment losses of financial assets and off-balance sheet credit risk items	1023	-	-	5 754 124	6 246 223
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	4 680 538	9 872 053	-	3 085 244
NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1025	-	-	987 984	-
Salaries, wages, and other personnel indemnities	1026	1 121 666	2 220 023	1 111 256	2 163 940
Depreciation costs	1027	143 974	291 237	197 918	383 835
Other expenses	1028	1 477 568	2 940 631	1 751 400	3 183 019
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	1 937 330	4 420 162	-	-
LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030	-	-	4 048 558	2 645 550
Tax on profit	1031	-	-	-	-
Deffered tax income for the period	1032	1 235 813	1 235 813	-	-
Deffered tax expense for the period	1033	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	3 173 143	5 655 975	-	-
LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035	-	-	4 048 558	2 645 550
NET PROFIT OF DISCONTINUED OPERATIONS	1036	-	-	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1037	-	-	-	-
NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038	3 173 143	5 655 975	-	-
NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1039	-	-	4 048 558	2 645 550
Net profit which belongs to owners of parent legal entity	1040	-	-	-	-
Net profit which belongs to minority investors	1041	-	-	-	-
Net loss which belongs to owners of parent legal entity	1042	-	-	-	-
Net loss which belongs to minority investors	1043	-	-	-	-
Earnings per share					
Basic earnings per share (in RSD, rounded)	1044	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1045	-	-	-	-

Column 3 for 1. quarter 01.01.-31.03., 2. quarter 01.04.-30.06., 3. quarter 01.07.-30.09.
Column 4 for 1. quarter 01.01.-31.03., 2. quarter 01.01.-30.06., 3. quarter 01.01.-30.09.



REPORT ON OTHER FINANCIAL RESULT

from 01.01.2017. to 30.06.2017.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06	01.04.-30.06.	01.01.-30.06
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	3.173.143	5.655.975		
LOSS FOR THE PERIOD	2002	-	-	4.048.558	2.645.550
Other result for the period		-	-	-	-
Components of other result that cannot be reclassified to profit or loss:					
Increase of revaluation reserves against intangible assets and fixed assets	2003	-	-	-	-
Decrease of revaluation reserves against intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2007	-	-	-	-
Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2008	-	-	-	-
Components of other result that can be reclassified to profit or loss:					
Positive effects of changes in fair value based on financial assets available for sale	2009	280	1.311	25.736	322.158
Unrealized losses arising from securities available for sale	2010	298.350	375.691	238.807	608.291
Gains from hedging instruments in a cash flow hedge	2011	-	-	-	-
Losses from hedging instruments in a cash flow hedge	2012	-	-	-	-
Positive cumulative differences arising from currency conversions in foreign exchange operations	2013	-	-	-	-
Negative cumulative differences arising from currency conversions in foreign exchange operations	2014	-	-	-	-
Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2015	-	-	-	-
Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2016	-	-	-	-
Tax-related profit that pertains to other result for the period	2017	-	-	-	-
Tax-related loss that pertains to other result for the period	2018	-	-	-	-
Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019	-	-	-	-
Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020	298.070	374.380	213.071	286.133
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	2.875.073	5.281.595	-	-
TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0	2022	-	-	4.261.629	2.931.683
Total positive result for the period that pertains to parent entity	2023	-	-	-	-
Total positive result for the period that pertains to owners without control rights	2024	-	-	-	-
Total negative result for the period that pertains to parent entity	2025	-	-	-	-
Total negative result for the period that pertains to owners without control rights	2026	-	-	-	-

Column 3 for: 1. квартал 01.01.-31.03.; 2. квартал 01.04.-30.06.; 3. квартал 01.07.-30.09.

Column 4 for: 1. квартал 01.01.-31.03.; 2. квартал 01.01.-30.06.; 3. квартал 01.01.-30.09.



CASH FLOW STATEMENT

from 01.01.2017 to 30.06.2017

(in RSD thousand)

POSITION	ADP code	Amount	
		01.01.-30.06.2017.	01.01.-30.06.2016
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflows from operating activities (from 3002 to 3005)	3001	12.764.856	12.755.382
1. Inflows from interest	3002	8.787.507	9.654.560
2. Inflows from allowances	3003	3.213.312	2.991.470
3. Inflows from other operating income	3004	760.633	98.176
4. Inflows from dividends and participation in profit	3005	3.404	11.176
II. Cash outflows from operating activities (from 3007 to 3011)	3006	7.237.824	7.309.045
5. Outflows from interest	3007	950.729	1.868.054
6. Outflows from allowances	3008	732.114	546.620
7. Outflows from gross salaries, wages and other personnel indemnities	3009	2.462.692	2.008.476
8. Outflows from taxes, contributions and other obligations from income	3010	426.188	354.924
9. Outflows from other operating expenses	3011	2.666.101	2.530.971
III. Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)	3012	5.527.032	5.446.337
IV. Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)	3013	-	-
V. Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)	3014	19.732.603	20.214.492
10. Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	11.616.405	-
11. Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3016	8.116.198	2.566.003
12. Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3017	-	-
13. Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients	3018	-	17.648.489
14. Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3019	-	-
15. Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3020	-	-
VI. Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)	3021	21.412.347	3.456.662
16. Increase in loans and advances to banks, other financial institutions, central bank and other clients	3022	-	3.456.662
17. Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3023	-	-
18. Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3024	-	-
19. Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients	3025	21.412.347	-
20. Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3026	-	-
21. Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3027	-	-
VII. Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)	3028	3.847.288	22.204.187
VIII. Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	-	-
23. Dividends paid	3031	-	119.477
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	3.847.288	22.084.690
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (od 3035 do 3039)	3034	29.780.580	25.867.180
1. Inflows from long-term investment in securities	3035	29.661.121	25.867.131
2. Inflows from sale of investments in subsidiaries and associates and joint ventures	3036	-	-
3. Inflows from sale of intangible assets, property, plant and equipment	3037	577	49
4. Inflow of sale of investment property	3038	118.882	-
5. Other inflows from investing activities	3039	-	-
II. Cash outflows from investing activities (from 3041 to 3045)	3040	36.602.005	43.294.329
6. Outflows from investment in long-term securities	3041	36.491.652	42.923.906
7. Outflows from purchase of investments in subsidiaries and associates and joint ventures	3042	-	-
8. Outflows from purchase of sale of intangible assets, property, plant and equipment	3043	110.353	370.423
9. Outflows from purchase of investment property	3044	-	-
10. Other outflows from investing activities	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV. Net cash outflow from investing activities (3040 - 3034)	3047	6.821.425	17.427.149
B. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 3049 to 3054)	3048	44.400.229	64.883.968
1. Inflows from capital increase	3049	-	-
2. Cash inflows from subordinated obligations	3050	-	-
3. Cash inflows from loans received	3051	44.400.229	64.883.968
4. Inflows from securities	3052	-	-
5. Inflows from sale of own shares	3053	-	-
6. Other inflows from financing activities	3054	-	-
II. Cash outflows from financing activities (from 3056 to 3060)	3055	47.105.308	65.286.456
7. Outflows from purchase of own shares	3056	-	-
8. Cash outflows from subordinated obligations	3057	-	-
9. Cash outflows from loans received	3058	47.105.308	65.286.456
10. Cash outflows from securities	3059	-	-
11. Other outflows from financing activities	3060	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV. Net cash outflow from financing activities (3055 - 3048)	3062	2.705.079	402.488
Г. TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3063	106.678.268	123.721.022
Д. TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	112.357.484	119.465.969
Ђ. NET INCREASE IN CASH (3063 - 3064)	3065	-	4.255.053
Е. NET DECREASE IN CASH (3064 - 3063)	3066	5.679.216	-
Ж. CASH AT THE BEGINNING OF THE YEAR	3067	34.945.610	36.227.664
З. PROFIT ON EXCHANGE	3068	25.003	159.607
И. LOSS ON EXCHANGE	3069	-	-
Ј. CASH AT END OF PERIOD (3065 - 3066 + 3067 + 3068 - 3069)	3070	29.291.397	40.642.324

Column 3 for: 1. квартал 01.01.-31.03. 2. квартал 01.01.-30.06. 3. квартал 01.01.-30.09.



STATEMENT OF CHANGES IN EQUITY

from 01.01.2017. to 30.06.2017.

ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2) 3+4+5+6+7+8-9+10	ADP code	Total (column 2) 3+4+5+6+7+8-9+10
Opening balance as of January 1st of preceding year	4001	17,191,466	4029		4057	22,843,084	4085	24,935,440	4113	3,977,808	4127	227,944	4141	179,550	4175	6,081,356	4209	62,838,046	4215	62,838,046
Correction of material misstatement and changes to accounting policies in preceding year – increase	4022		4030		4058				4114		4128		4142		4176					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059				4115		4129		4143		4177					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3)	4004	17,191,466	4032		4060	22,843,084	4086	24,935,440	4116	3,977,808	4130	227,944	4144	179,550	4178	6,081,356	4210	62,838,046	4216	62,838,046
Total positive other result for the period									4117	338,030	4131	222,857								
Total negative other result for the period									4118	-4132										
Loss for the year													4145							
Transfer from reserves to result due to release of reserves – increase													4146							
Transfer from reserves to result due to release of reserves – decrease													4147							
Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089						4148							
Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090						4149							
Profit distribution – increase	4007		4035		4063		4091						4150							
Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092	6,143,612					4151	196,019	4185	6,200,631				
Dividend payments	4009		4037		4065		4093						4152	23,531	4186					
Other – increase	4010		4038		4066		4094						4153	348,698	4187	236,273				
Other – decrease	4011		4039		4067		4095						4154		4188					
Total transactions with owners (number 11-12+13-14-15+16-17)	4012	0	4040	0	4068	0	4096	0					4155	170,148	4189	0				
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013	0	4041	0	4069	0	4097	6,143,612					4156		4190	6,081,356				
Balance as of December 31st of preceding year (number 4+5-6+7+8-10-18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)	4014	17,191,466	4042	0	4070	22,843,084	4098	18,791,828	4119	4,316,496	4133	5,087	4157	348,698	4191	8,063,183	4211	59,424,302	4217	59,424,302
Opening balance as of January 1st of the current year	4015	17,191,466	4043		4071	22,843,084	4099	18,791,828	4120	4,316,496	4134	5,087	4158	348,698	4192	8,063,183	4212	59,424,302	4218	59,424,302
Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135		4159		4193					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136		4160		4194					
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4018	17,191,466	4046	0	4074	22,843,084	4102	18,791,828	4123	4,316,496	4137	5,087	4161	348,698	4195	8,063,183	4213	59,424,302	4219	59,424,302
Total positive other result for the period									4124											
Total negative other result for the period									4125	395,510	4138	1,311								
Loss for the year													4162							
Transfer from reserves to result due to release of reserves – increase													4163							
Transfer from reserves to result due to release of reserves – decrease													4164							
Transactions with owners, recorded directly in equity – increase	4019		4047		4075		4103						4165							
Transactions with owners, recorded directly in equity – decrease	4020		4048		4076		4104						4166							
Profit distribution – increase	4021		4049		4077		4105						4167							
Profit distribution, and/or loss coverage – decrease	4022		4050		4078		4106	7,730,260					4168	348,698	4202	8,063,183				
Dividend payments	4023		4051		4079		4107						4169							
Other – increase	4024		4052		4080		4108						4170							
Other – decrease	4025		4053		4081		4109						4171							
Total transactions with owners (number 31-32+33-34-35+36-37)	4026	0	4054	0	4082	0	4110	0					4172	4206	0					
Total transactions with owners (number 31-32+33-34-35+36-37) < 0	4027	0	4055	0	4083	0	4111	7,730,260					4173	348,698	4207	8,063,183				
Balance as of June 30 st of the current year (number 24+25-26+27+28-29-30-38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+28-29)	4028	17,191,466	4056	0	4084	22,843,084	4112	11,061,536	4126	3,020,986	4140	3,776	4174	5,655,975	4208		4214	60,669,270	4220	60,669,270



NOTES

TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER 2017

Belgrade, July 2017



1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna banka AD Beograd (hereinafter referred to as "Bank") was incorporated on 01st December 1970, and transformed into a joint-stock company on 06th May 1992.

As of 30.06.2017 the largest voting shareholders of the Bank are:

1. Republic of Serbia and
2. EBRD, London

The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

- 100% - Komercijalna banka AD Budva, Montenegro
- 100% - KomBank INVEST AD, Serbia
- 99.99 % - Komercijalna banka AD Banja Luka, Bosnia and Herzegovina.

The Financial Statements and the Notes thereto represent the data of the Bank as an individual parent legal entity.

The Bank's activities involve lending, deposit and guarantee related operations, and payment transactions in the country and abroad in compliance with the Law on Banks. The Bank is bound to operate upon the principles of liquidity, safety and profitability.

As of 30 June 2017, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 11 business and business – corporate centres, 1 branch and 203 sub-branches.

As of 30 June 2017, the Bank has 2,764 employees, and on 31 December 2016 the number of employees was 2,858. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

The Bank keeps books of accounts and prepares the financial statements in accordance with applicable Law on Accounting of the Republic of Serbia (RS Official Gazette, 62/2013), The Law on Banks (RS Official Gazette, numbers 107/2005, 91/2010 and 14/2015) and other relevant by-laws of the National Bank of Serbia, as well as other applicable legal regulations in the Republic of Serbia.

Pursuant to the Law on Accounting, legal entities and entrepreneurs in the Republic of Serbia prepare and present the financial statements in accordance with legal, professional and internal regulations. Professional regulations involve the applicable Framework for preparation and presentation of financial statements („Framework“), International Accounting Standards („IAS“), International Financial Reporting Standards („IFRS“) and interpretations that are an integral part of the standards, or the text of applicable IAS and IFRS which does not include the bases for conclusions, illustrative examples, guidelines, comments, contrary opinions, worked-out examples and other supplementary material.

When preparing and presenting the periodic financial statements for the period January – June 2017, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for the year 2016.

The enclosed financial statements are prepared in the format prescribed by the Instruction on the manner in which public companies and certain companies related with them present information to the Securities Commission in conformity with the Law on Capital Market (RS Official Gazette, number 31/2011, 112/2015 and 108/2016). The prescribed set of quarterly financial statements includes: Balance Sheet, Income Statement, Statement of Other Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity, and Notes to Financial Statements.

2.2. Assessment Rules

Financial statements are prepared on the historical value principle, save for the following items:

- financial instruments at fair value through income statement, which are valued at fair value;
- financial instruments available for sale, which are valued at fair value;
- derivatives, which are valued at fair value, and
- building structures, which are valued at revalorized value.

2.3. Functional and Reporting Currency

Financial statements of the Bank are shown in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia and functional currency of the Bank.

3. STRUCTURE OF BALANCE SHEET AND INCOME STATEMENT, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ASSESSMENTS AND ASSUMPTIONS

BALANCE SHEET

The structure of the Bank's balance sheet as of 30 June 2017, with comparative data for 2016, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 71/2014 and 135/2014) can be seen in more detail from the following overview (reported in thousands of dinars):

ASSETS	In RSD thousand			
	30.06.2017		31.12.2016	
	Amount	%	Amount	%
Cash and cash funds held with the central bank	48,163,638	12.88	55,153,209	13.79
Financial assets at fair value through profit and loss, held for trading	2,444,835	0.65	242,920	0.06
Fin. assets available for sale	128,246,890	34.29	136,123,853	34.03
Fin. assets held to maturity	-	-	-	-
Loans and receivables due from banks and other financial organizations	34,922,924	9.34	40,601,413	10.15
Loans and receivables from customers	141,862,687	37.93	150,411,409	37.60
Investments in subsidiaries	2,611,859	0.70	2,611,859	0.65
Intangible assets	323,055	0.09	362,507	0.09
Property, plant and equipment	5,718,325	1.53	5,856,458	1.46
Investment property	2,084,645	0.56	2,217,816	0.55
Current tax assets	-	-	-	-
Deferred tax assets	1,768,775	0.47	-	-
Non-current assets held for sale and assets from discontinued operations	181,081	0.05	183,170	0.05
Other assets	5,669,825	1.51	6,252,855	1.57
TOTAL ASSETS	373,998,539	100.00	400,017,469	100.00

LIABILITIES	In RSD thousand			
	30.06.2017		31.12.2016	
	Amount	%	Amount	%
Financial liabilities at fair value through profit and loss, held for trading	-	-	-	-
Deposits and other liabilities due to banks, other fin. organizations and central bank	5,655,581	1.51	7,834,962	1.96
Deposits and other liabilities due to other customers	294,511,663	78.75	322,621,360	80.65
Subordinated liabilities	6,050,242	1.62	6,178,390	1.54
Provisions	1,241,184	0.33	1,787,294	0.45
Deferred tax liabilities	576,374	0.15	23,592	0.01
Other liabilities	5,294,225	1.42	6,147,569	1.53
Equity	60,669,270	16.22	55,424,302	13.86
TOTAL LIABILITIES	373,998,539	100.00	400,017,469	100.00

INCOME STATEMENT

Income and expense structure and their share in the corresponding 2017 Income Statement categories are as follows:

In RSD thousand

INCOME	30.06.2017	30.06.2016
	Total	Total
Interest income	7,276,776	8,612,652
Fee and commission income	3,193,406	2,961,541
Net gains on the financial assets held for trading	39,483	28,102
Net gains on financial assets available for sale	43,886	-
Net income from FX differences and the effect of agreed currency clause	-	1,199
Net gains on investments in subsidiaries and joint ventures	306	-
Other operating income	709,456	149,365
Net gains on reduction in impairments of financial assets and credit risk weighted off-balance sheet items	227,327	-

EXPENSES	30.06.2017	30.06.2016
	Total	Total
Interest expense	887,942	1,825,069
Fee and commission expense	730,628	545,596
Net loss from financial assets held for trading	-	-
Net loss from financial assets available for sale	-	50,727
Net expense from exchange rate differentials and the effects of agreed currency clause	17	-
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	-	6,246,223
Cost of salaries, allowances and other personnel expenses	2,220,023	2,163,940
Depreciation cost	291,237	383,835
Other expenses	2,940,631	3,183,019

Profit/loss before tax	4,420,162	(2,645,550)
Profit from deferred tax	1,235,813	-
Result for the period (profit/loss)	5,655,975	(2,645,550)

CASH FLOW STATEMENT

In RSD thousand

Item	30.06.2017	30.06.2016
	Total	Total
Cash inflows from operating activities	12,764,856	12,755,382
Inflow from interest	8,787,507	9,654,560
Inflow from fees	3,213,312	2,991,470
Inflow from other operating activities	760,633	98,176
Inflow from dividends and share in profit	3,404	11,176
Cash outflows from operating activities	7,237,824	7,309,045
Interest payments	950,729	1,868,054
Fee payments	732,114	546,620
Payments for gross salaries, allowances and other personnel expenses	2,462,692	2,008,476
Taxes, contributions and other duties charged to income	426,188	354,924
Payments for other operating expenses	2,666,101	2,530,971
Net cash inflow from operating activities before increase or decrease in loans and deposits	5,527,032	5,446,337
Decrease in lending and increase in deposits and other liabilities	19,732,603	20,214,492
Decrease in loans and receivables from banks, other financial organizations, the central bank and customers	11,616,405	-
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	8,116,198	2,566,003
Increase in deposits and other liabilities to banks, other financial organizations, the central bank and customers	-	17,648,489
Increase in lending and decrease in received deposits and other liabilities	21,412,347	3,456,662
Increase in loans and receivables from banks, other financial organizations, the central bank and customers	-	3,456,662
Increase in financial assets initially recognized at fair value through income statement, financial assets held for trading and other securities not held for investment	-	-
Decrease in deposits and other liabilities to banks, other financial organizations, central banks and customers	21,412,347	-

Item	30.06.2017.	30.06.2016.
	Total	Total
Net inflow of cash from operating activities before profit tax	3,847,288	22,204,167
Net outflow of cash from operating activities before profit tax	-	-
Paid profit tax	-	-
Paid dividends	-	119,477
Net inflow of cash from operating activities	3,847,288	22,084,690
Net outflow of cash from operating activities	-	-
Cash inflow from investment activities	29,780,580	25,867,180
Inflow from investment securities	29,661,121	25,867,131
Inflow from sales of intangible assets, property, plants and equipment	577	49
Inflow from sale of investment property	118,882	-
Cash outflow from investment activities	36,602,005	43,294,329
Outflow from investing in investment securities	36,491,652	42,923,906
Outflow for purchase of intangible assets, property, plants and equipment	110,353	370,423
Outflow for purchase of investment property	-	-
Net outflow of cash from investment activities	6,821,425	17,427,149
Cash inflow from financing activity	44,400,229	64,883,968
Inflow from borrowings	44,400,229	64,883,968
Cash outflow from financing activity	47,105,308	65,286,456
Outflow from borrowings	47,105,308	65,286,456
Net outflow of cash from financing activity	2,705,079	402,488
Total cash inflow	106,678,268	123,721,022
Total cash outflow	112,357,484	119,465,969
Net increase in cash	-	4,255,053
Net decrease in cash	5,679,216	-
Cash and cash equivalents at the start of the year	34,945,610	36,227,664
Exchange rate gains	25,003	159,607
Exchange rate loss	-	-
End of period cash and cash equivalents	29,291,397	40,642,324

INCOME STATEMENT

3.1. Interest Income and Expenses

Interest income and expenses, including default interest and other income and other expenses relating to interest-bearing assets, and/or interest-bearing liabilities, were calculated according to accrual concept and according to the conditions from the contractual relationship defined by the agreement between the Bank and the client.

Interest income also includes income based on financial risk protection instruments, mainly by pegging the annuities to the exchange rate of the Dinar against the EUR, another foreign currency or to the retail price growth index, and are calculated at the close of each month during the repayment and on the date on which the annuity is due for payment.

Net interest income in the period January – June 2017 amounts to RSD 6,388,834 thousand and is lower by RSD 398,749 thousand, or 5.87% compared to the same quarter last year, as a result of a decrease in interest rates and prepaid loans during 2017. At the same time, net interest income was in accordance with the Business Plan for the first six months of 2017 i.e. RSD 34,334 thousand above plan.

3.2. Fee and Commission Income and Expenses

Income and expenses based on fees and commissions are recognized according to accrual concept.

Income from fees for banking services and expenses based on fees and commissions are established at the time when they are due for collection or when paid. They are recognized in the Income Statement at the time when they are incurred and/or when due for collection. Income based on fee for approval of loans, guarantees and other contingent liabilities are accrued in accordance with the period of duration and are recognized in the Income Statement proportionally to the duration period.

Net fee income in the period January – June 2017 amounts to RSD 2,462,778 thousand and is higher compared to the same period 2016 by 1.94%, or RSD 46,833 thousand.

3.3. Income and Expenses from Financial Assets Held for Trade and Available for Sale

Realized and unrealized gains and losses based on the change in the market value of trading securities are recognized through the income statement.

Gains and losses based on the change in amortized value of the securities held to maturity are recognized as income or expense.

Unrealized gains and losses based on securities available for sale are recognized within the revaluation reserves included in the Bank's capital. At the time of sale or permanent decrease in the value of such securities, corresponding amounts of the previously formed revaluation reserves are shown in the Income Statement as gains or losses based on investment in securities.

In the observed period of 2017 the Bank showed the net gains against financial assets held for trading in the amount of RSD 39,483 thousand (RS bonds and RS T-bills and investment units of KombankInvest).

As for financial assets available for sale the net gains from sale were recorded amounting to RSD 43,886 thousand (bonds and T-bills of the Republic of Serbia and foreign entities' bonds),

Gains/losses based on contracted currency clause and changes in the exchange rate of the securities available for sale, and interest income under the securities available for sale are shown within the Income Statement.

Impairments for assessed risk values per all types of securities are recognized in the Bank's Income Statement.

3.4. Re-statement of FX Amounts – Income and Expenses from Exchange Rate Differentials and the Effects of Exchange Rate Differentials from Agreed Currency Clause

Business transactions in foreign currency were re-stated in the Dinars at mid-exchange rate on the inter-bank FX market, applicable on the transaction date.

Assets and liabilities shown in foreign currency as at the balance sheet date were restated in dinars at mid-exchange rate fixed on the inter-bank FX market, applicable on that date.

Net FX gains and losses arising from business transactions in foreign currency and when restating the balance sheet items shown in foreign currency, were booked as credited or charged to the income statement as gains or losses from exchange rate differentials.

Loans and deposits in RSD, for which protection against risk was agreed by linking the RSD exchange rate to the EUR, to other foreign currency or to the growth of retail price index, were revalued in accordance with each specific loan contract. The difference between the nominal value of unpaid principal for loans or unpaid deposits and revalued amount is shown within receivables from loans or liabilities from deposits. Effects of this revaluation are recorded as income or expenses from the agreed currency clause.

Net expenses from exchange rate differentials in the reporting period January – June 2017 amount to RSD 17 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

Assumed and contingent liabilities in foreign currency were re-stated in dinars at middle exchange rate on the inter-bank FX market applicable as at the balance sheet date.

3.5. Other Operating Income

In the overall other operating income amounting to RSD 709,456 thousand, other revenues account for the most important share of 83.15 % (same period last year 59.02 %), which mainly refer to the income generated under the court case ruled in favor of the Bank, on the basis of final decision amounting to RSD 566,450 thousand. Excluding the effect of revenues generated from the court dispute ruled in favor of the Bank, the percentage of share of other revenues in total operating income equals 3.31%. Within other income, equally important items relate to income from:

- release of provisions for court disputes of RSD 25,426 thousand, given that the net positive effect of results of calculating provisions in the quarter is recognized through a decrease in required provisions through income from release of provisions. In the second quarter of 2017, the effect of net decrease of provisions for court disputes compared to the balance in the business books for the previous period in the amount of RSD 25,426 thousand is mostly a result of exchange rate differences for disputes expressed in a foreign currency (EUR, USD and CHF) and

- collected interest from previous years from corporate, entrepreneurs and retail in the total amount of RSD 17,602 thousand.

Within the other operating income the most significant items relate to revenues generated from leasing the real estates in the amount of RSD 53,138 thousand. Other operating revenues have been generated under the reimbursement of costs in relation to: mobile phones, court and utility costs and revenues on the basis of using the company cars for private purposes.

Income from dividends is part of the position: Other Income. Dividends received from investment in shares of other legal entities in the amount of RSD 3,404 thousand are shown as income from dividends at the moment of their collection. Out of total amount of received dividends, RSD 2,797 thousand relates to dividend received from VISA Inc. USA, while RSD 607 thousand to dividends received from MasterCard USA.

3.6. Net Income /Expenses from Impairment of Financial Assets and Credit Risk Weighted Off-Balance Sheet Items

The Bank classifies its financial assets into the following categories: financial assets at fair value, whose effects of changes in the fair value are shown in the Income Statement, loans and receivables, financial assets available for sale, and assets held to maturity.

The classification depends on the purpose for which the financial assets have been acquired. The management classifies its financial investments at the time of initial recognition.

The Bank's financial assets are appraised as at the balance sheet date to establish whether objective proof of impairment exists. If proof of impairment exists, a recoverable amount of investment is determined. In order to manage the credit risk adequately and efficiently, the Bank has prescribed by its internal documents special policies and procedures for identifying the non-performing assets and for managing such assets.

The Bank's management makes estimates of the recoverability of receivables and/or impairment allowance for investments by separately appraising each individual non-performing loan. Non-performing loans are all loans in default. The Bank assesses the recoverable amount of receivables and loans by taking at the same time into account the regularity of payments, debtor's financial standing and the quality of the collateral, as well as the contracted cash flow and historical loss related data.

For assessed impairment amount, the Bank makes allowance against the expenses for the period in which the impairment occurred. If in later periods the Bank management finds that conditions have changed and that impairment is no longer in place, the allowance made earlier is abolished in favor of income. Abolishment of the allowance cannot result in the asset's carrying value being larger than the value such asset would have had if it had not been impaired earlier.

In the period January - June 2017, net income against reduction of indirect write-offs of loans and provisions was recorded in the amount of RSD 227,327 thousand, while in the same period 2016 the net expenses incurred on the same basis amounted to RSD 6,246,223 thousand. This is primarily a result of the Bank's orientation to increase over the previous 2016 the coverage of NPLs by impairments and provisions against expenses of the period, in order to „clean the assets” for the purpose of privatization, which was for the most part realized throughout 2016, as well as the absence of the planned increase in corporate loans.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 2,220,023 thousand are higher by RSD 56,083 thousand or 2.59 % compared to the same period last year. Net increase came primarily as a result of paid fees / severance pay for consensual termination of employment, growth of labour cost that is applied for calculation of salaries, by 2.17% since April 2016 and increase of average salary in the Republic of Serbia, which is the basis for calculating the meal allowance, vacation allowance and contributions by 7.2%, compared to the same period last year and the effects of the process of amending the internal organization and systematization.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 291,237 thousand are lower relative to the period January – June 2016 by RSD 92,598 thousand or 24.12%, mainly due to full depreciation of certain fixed and intangible assets, as reduced basis for calculation, on account of impairment of immovable property at the end of 2016 – reduction to fair value on the basis of valuation performed by a certified valuer.

3.9. Operating Expenses and Other Operating Expenses

Operating and other operating expenses are stated in the amount of RSD 2,940,631 thousand and they have been decreased in comparison to the same period last year by RSD 242,388 thousand, or 7.62%. Other costs consist of:

- a) operating expenses amounting to RSD 2,819,071 thousand,
- b) cost of provisions for court disputes amounting to RSD 17,424 thousand and
- c) other expenses amounting to RSD 104,136 thousand

The following items account for the largest share of operating and other expenses:

a) *Operating expenses in the total amount of RSD 2,819,071 thousand, as follows:*

- costs of production services in the amount of RSD 942,697 thousand, of which the largest amounts come from: rental costs for office space, equipment and advertising space in the amount of RSD 288,328 thousand, costs of managing and maintaining ATMs and POS terminals network and other equipment for payment cards amounting to RSD 175,668 thousand, costs of maintenance of information equipment and software in the amount of RSD 121,436 thousand, costs of advertising and marketing amounting to RSD 103,133 thousand and cost of heating amounting to RSD 39,116 thousand
- intangible costs totalling RSD 1,247,574 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 845,505 thousand.
- cost of materials amounting to RSD 187,486 thousand

Operating expenses of the current period are lower year-on-year by RSD 74,061 thousand.

b) *Other expenses in the amount of RSD 104,136 thousand.*

Out of total amount of other expenses for the period January – June 2017, totalling RSD 104,136 thousand the largest part relates to costs of insurance policy of borrowers' receivables in the amount of RSD 49,611 thousand. Other expenses on such basis in Q2 2017 amounted to RSD 38,436 thousand. Considerable items of other expenses in the second quarter 2017 are the cost of lost court disputes in the amount of RSD 31,896 thousand dinars, cost per insurance policy of the user of account sets of RSD 11,156 thousand and the interest expenses from court disputes from the previous year of RSD 4,245 thousand.

Compared to the same period 2016, other expenses are lower by RSD 114,962 thousand compared to the item from 2016 which related to the payment of interest of RSD 122,670 thousand, related to the case of Interexport AD Beograd from the second-instance decision of the Commercial Court of Appeal No. PZ 919/15 of 05.05.2016. This item is not present in the P&L for the current period.

c) cost of provision for court liabilities amounts to RSD 17,424 thousand and relates to the increase in provision for court liabilities of the Bank from the previous quarter. In the current quarter the Bank has posted an income as a result in net decrease in provisions (gross principle of recognizing the changes in provisions – link note 3.5).

BALANCE SHEET

Balance sheet total as of 30.06.2017 amounts to RSD 373,998,539 thousand, which in comparison to 31.12.2016, represents a decrease by RSD 26,018,930 thousand, or 6.50%. Such decrease is largely a result of reduction in the item loans and receivables from clients, banks and other financial organizations and securities available for sale on the assets side and reduction in the deposits from customers on the liabilities side.

ASSETS

In total Bank's assets loans and deposits to customers and banks have a dominant share of 47.27% (2016: 47.75%), financial assets available for sale with share of 34.29% (2016: 34.03%), cash and funds at the central bank with a share of 12.88% (2016: 13.79%), other assets with a share of 1.51% (2016: 1.57%), property, plant and equipment with a share of 1.53% (2016: 1.46%) and investment in subsidiaries of 0.70% (2016: 0.65%).

3.10. Cash and Funds with the Central Bank

Cash and assets with the central bank as of 30.06.2017 amount to RSD 48,163,638 thousand, and account for 12.88% of the Bank's total assets (13.79 % as of 31.12.2016). Compared to 31.12.2016 the position has decreased by RSD 6,989,571 thousand.

In the cash flow statement the Bank shows cash on the drawing account at the National Bank of Serbia, cash on accounts with foreign banks, funds on the account at the Central Securities Depository and Clearing House and cash at hand.

3.11. Financial Assets at Fair Value through Income Statement Held for Trade and Financial Assets Available for Sale

Investment in securities at fair value in the amount of RSD 2,444,835 thousand and financial assets available for sale in the amount of RSD 128,246,890 thousand, which together make up a percentage of share of 34.94% of total assets (2016: 34.09%), have decreased compared to 2016 by RSD 5,675,048 thousand. The recorded drop is entirely related to investments in financial assets available for sale amounting to RSD 7,876,963 thousand on account of realization of securities – sale or maturity, while the investments in securities held of trading recorded an increase of RSD 2,201,915 thousand.

In the structure of dinar financial assets available for sale as of 30.06.2017 the largest share is that of the bonds of the Republic of Serbia (93.17%), followed by T-bills of the Republic of Serbia with (6.83%). As for securities in foreign currency, these are made up of bonds of the Republic of Serbia (96.72%), T-bills of the Republic of Serbia (1.26%) and bonds by foreign banks and countries equalling (2.02%).

3.12. Loans and Receivables from Banks and Other Financial Organizations and Loans and Receivables from Customers

Loans are shown in the balance sheet at the level of approved loans, less repaid principal and less the impairment allowance based on the assessment of specific identified risks for certain loans and risks that are empirically included in the loan portfolio. In assessing the mentioned risks, the management applies the methodology based on full application of IAS 39.

Loans in Dinars, for which the protection against risk has been contracted by pegging the exchange rate of the Dinar against the EUR, another foreign currency or the retail price index growth rate, were revalored in accordance with the specific agreement for each loan. The difference between the nominal value of outstanding principal and the revalored amount is shown within the loan receivables. The effects of this revaluation are recorded within income and expenses from the effects of the agreed currency clause.

Net positive or negative exchange rate differentials resulting from business transactions in foreign currency and from restating the balance sheet items in foreign currency, were accounted for in the income statement as exchange rate gains or losses.

As of 30.06.2017, loans and receivables from banks and other financial organizations amount to RSD 34,922,924 thousand with a percentage of share of 10.15% of total assets (2016: RSD 40,601,413 thousand) and are lower by RSD 5,678,489 thousand. Decrease compared to 31.12.2016 is mostly a result of decrease in REPO transactions by RSD 8,000,000 thousand, on one side, and an increase in lending approved and due within a single day (overnight) in a foreign currency by 2,886,214 thousand dinars, on the other side.

Loans and receivables from customers as of 30.06.2017 amount to RSD 141,862,687 thousand with a percentage of share of 37.93% of total assets (2016: RSD 150,411,409 thousand) and as such have predominant share in asset structure. Total loans to customers are lower by RSD 8,548,722 thousand, primarily as a result of a decrease due to prepaid loans in the total amount of 6,187,917 thousand dinars and a decrease due to regular repayment of loans to customers (including also impairments) in the total net amount of 2,360,805 thousand dinars.

3.13. Investment in Subsidiaries

Investments in subsidiaries are RSD 2,611,859 thousand and account for 0.70% of total assets.

The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits. Transactions with related entities have been carried out on market conditions.

Investments in subsidiaries as of 30.06.2017 amount to 5.480.888 dinars (gross amount excluding impairments) individual per members:

	In RSD thousand
KomBank Invest a.d. Beograd	140,000
Komercijalna banka a.d. Banja Luka	2,974,615
Komercijalna banka a.d. Budva	<u>2,366,273</u>
TOTAL GROSS	5,480,888
Impairments	<u>(2,869,029)</u>
NET	<u>2,611,859</u>

Decrease in the value of investment into subsidiaries was a result of appraisal of fair value by an independent valuer and the effects were recognized in the profit&loss as of 31.12.2016.

3.14. Other Assets, Intangible Assets, Property and Investment Property, Current and Deferred Tax Assets and Non-Current Assets Held for Sale

All these items account for only 4,21% of total assets, of which the highest percentage relates to property, plant and equipment amounting to 1.53%, other assets totalling 1.51% and investment property equalling 0.56%.

Receivables under court disputes in the amount of RSD 209,085 thousand have been fully provisioned and relate to the client KMS.

Equity investments in banks, foreign and local legal entities as of 30.06.2017 amount to RSD 1,445,412 thousand (gross amount, excluding impairment) of which stake in the equity of foreign entities amounts to RSD 896,136 thousand and these are stakes in the companies Master and Visa International. Impairment provision for equity investments in banks, foreign and local legal entities as of 30.06.2017 amounts to RSD 504,732 thousand.

Current tax assets in the amount of 1,768,775 thousand dinars mostly relate to the formed deferred tax assets from realized tax losses in the previous years. Taxable profit on the basis of the planned profit from the Business Plan for the period 2017 – 2019 amounts to approx. 8,239,000 thousand dinars and has enabled the recognition of deferred tax assets from tax losses carried forward in the amount of 1,235,813 thousand dinars. The period set for the use of these deferred tax assets is 5 years.

LIABILITIES

In the period January – June 2017 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers with a total percentage of 80.26% (2016: 82.61%) of total liabilities. Share of capital in total liabilities equals 16.22% (2016: 13.86%).

Other items account for 3.52% of total liabilities, with the largest part referring to subordinated liabilities with a percentage of 1.62%.

3.15. Deposits and Other Liabilities to Banks, Other Financial Organizations and Central Bank and Deposits to Other Customers

Deposits are shown at the level of deposited amounts, which can be increased by calculated interest, which depends on the contractual relationship between the depositor and the Bank. The Bank agreed the interest rates on deposits depending on the amount of deposit.

FX deposits are shown in Dinar at middle exchange rate of currencies applicable as at the balance sheet date.

In the balance sheet, deposits are shown as transaction and other deposits of the financial sector and deposits from other customers.

Deposits and other liabilities to customers account for the largest share in the structure of liabilities in the amount of RSD 294,511,663 thousand thus accounting for 78.75% of total liabilities (2016: 80.65%), followed by subordinated liabilities of 6,050,242 thousand dinars with a share of 1.62% (2016: 1.54%) and deposits and other liabilities to banks, other financial organizations and the central bank in the amount of RSD 5,655,581 thousand with a share of 1.51% (2016: 1.96%).

When compared to 2016 total decrease of deposits amounts to RSD 30,289,078 thousand: transaction deposits are lower by RSD 24,572,815 thousand, while other deposits recorded a decrease amounting to RSD 5,716,263 thousand.

Decrease in transaction deposits came as a result of reduction in RSD transaction deposits in the amount of RSD 25,972,876 thousand, while transaction deposits in foreign currency recorded a growth by RSD 1,400,061 thousand compared to 31.12.2016. The structure of transaction deposits is still dominated by deposits in local currency with a share of 58.47%, while the remaining 41.53% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 94.35%, while dinar deposits account for 5.65%. Foreign currency savings have increased by EUR 12,61 million.

Borrowings

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 10,117,620 thousand and with a share percentage in total liabilities of 2.71% it recorded a reduction relative to 2016 in the amount of RSD 2,909,552 thousand due to regular repayment of a foreign credit line to GGF of EUR 3,290 thousand or RSD 402,233 thousand, prepayment to EIB of EUR 2,977 thousand or RSD 366,063 thousand, Revolving Loan Fund in the amount of EUR 155 thousand or RSD 19,124 thousand and repayment of regular tranches of loans of other credit lines.

The item *Borrowings from foreign banks* relates to the liability to EBRD of RSD 3,590,930 thousand.

The structure of long-term loans due to other creditors is as follows:

1. LEDIB 1 and 2 (Loan from Kingdom of Denmark) – RSD 6,043 thousand,
2. Government of the Republic of Italy – RSD 309,638 thousand,
3. European Investment Bank (EIB) – RSD 4,433,987 thousand,
4. European Agency for Reconstruction and Development (EAR) – RSD 129,087 thousand and
5. KfW – RSD 1,647,935 thousand.

3.16. Subordinated Liabilities

In accordance with the regulations of the National Bank of Serbia regarding capital requirements and implementation of Basel II standard, in 2011 the Bank strengthened its capital base by taking a subordinated loan from the International Finance Corporation. Subordinated liabilities as of 30 June 2017 amount to RSD 6,050,242 thousand and they comprise the subordinated loan in dinar equivalent of EUR 50,000 thousand or RSD 6,042,430 thousand reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 4,219 thousand and accrued liabilities from interest of RSD 12,031 thousand. The loan was approved with a maturity date of 15 December 2017.

3.17. Provisions

Provisions in the amount of RSD 1,241,184 thousand consist of provisions for:

- coverage of liabilities (court disputes) in the amount of RSD 664,130 thousand,
- long-term employee salaries of RSD 442,516 thousand and
- provisions for losses on off-balance sheet assets of RSD 134,538 thousand.

Compared to 2016, in the reporting period there was a decrease in provisions in the amount of RSD 546,110 thousand as a result of a decrease in provisions for court disputes of RSD 249,707 thousand and a decrease in provisions for losses from off-balance-sheet assets of RSD 296,403 thousand.

Provisions for court disputes

Recognition of provisions was carried out on the basis of estimate of future outflows in the amount stated in the legal claims, including interest and expenses.

Compared to 31.12.2016 there was a decrease in the total level of these provisions, in the amount of RSD 249,707 thousand.

The biggest part of the decrease relates to the payment of liability for one case on the basis of the court decision from May 2017 in the total amount of RSD 495,505 thousand.

For this case the Bank had allocated provisions for two items:

- provisions for court liabilities of	232,171 thousand dinars and
- provisions for losses from off-balance-sheet assets guarantee of	<u>260,686 thousand dinars</u>
Total	492,857 thousand dinars

that the Bank used fully for payment, while the remainder up to the full amount from the court decision of RSD 2,647 thousand was paid as an expense.

Of the total amount of provisions for court liabilities recognized as of 30.06.2017 in the amount of RSD 664,130 thousand, the most important item is the provision for the case with Interexport a.d. Beograd (in bankruptcy) – for covered letters of credit from 1991 in the amount of RSD 332,806 thousand or USD 1,946 thousand for the principal and USD 1,132 thousand for interest.

For another thirty-one court disputes the Bank has made provisions in the total amount of RSD 331,324 thousand.

3.18. Other liabilities

Other liabilities amounting to RSD 5,294,225 thousand are lower by RSD 853,344 thousand compared to 2016. Percentage of share of other liabilities in the total liabilities is 1.42% (2016: 1.54%). The most important items in other liabilities are: liabilities from profit amounting to RSD 2,434,302 thousand, liabilities from calculation of purchase and sale of foreign currency amounting to RSD 966,789 thousand, other liabilities from SPOT transaction of RSD 584,612 thousand, liabilities for overpaid retail loans of RSD 139,995 thousand, liabilities from closed accounts by clients deleted at the competent register in the amount of RSD 135,986 thousand.

Of the total decrease in other liabilities of RSD 853,344 thousand the single most important amount relate to the decrease in other liabilities from business relations of RSD 243,429 thousand, liabilities to suppliers of RSD 224,760 thousand and liabilities in calculation in foreign currency of RSD 81,622 thousand.

3.19. Capital

The Bank's capital comprises the original founding capital, reserves from profit, revaluation reserves, unrealized losses based on securities available for sale, accumulated result and the current period result.

The Bank's capital was formed from cash invested by the founders of the Bank. The founder cannot withdraw the funds invested in the Bank's capital.

In conformance with the Bank's founding acts, the Bank's capital consists of the share capital and Bank reserves. The Bank's share capital was formed by initial investments made by the shareholders and later issues of new shares. The shareholders have the right to manage the Bank, as well as the right to participate in the profit distribution.

As at 30.06.2017 the Bank's capital consists of:

In RSD thousand	2017	2016
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from profit	11,061,535	18,791,828
Revaluation reserves	3,864,737	4,240,027
Unrealized losses based on securities available for sale	(3,776)	(5,087)
Actuarial gains	56,249	76,069
Reserves	14,978,745	23,103,237
Accumulated loss/profit	0	349,698
Profit/Loss	5,655,975	(8,063,183)
Balance as at date	60,669,270	55,424,302

Based on the Decision of the Securities Commission of 17 March 2011, the Bank substituted the shares of the nominal value of 10.000,00 Dinars with the shares of a nominal value of 1.000,00 Dinars.

The shares were substituted in order to increase the liquidity of the securities and make them more easily accessible to a broader circle of small investors.

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.

Current profit of RSD 5,655,975 thousand is made up of the results from the current period of RSD 4,420,162 thousand and profit from gains from deferred taxes of RSD 1,235,813 thousand.

The Bank is under obligation to maintain the minimum capital adequacy ratio of 12% prescribed by the National Bank of Serbia, according to the Basel Convention that binds all banks.

The capital adequacy ratio of the Bank as at 30 June 2017, calculated on the basis of the financial statements, equals 26.99 % having implemented the applicable decisions of the National Bank of Serbia for 2017.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.06.2017 the pecuniary part of capital is above the prescribed level.

In accordance with the decision of the General Meeting of Shareholders on XXVII issue of ordinary shares by public offer with no obligation to publish the prospectus for the purpose of converting preference convertible shares into ordinary shares, on 24 November 2014 the Bank converted 8,108,646 convertible preference shares into voting shares. This conversion resulted in a changed percentage of holding of ordinary shares.

The structure of the share capital – ordinary shares as at 30.06.2017 is as follows:

Shareholder name	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
EAST CAPITAL (lux) BALKAN FUND	1.46
INVEJ DOO, Beograd	1.37
UNICREDIT BANK Serbia	1.23
Company Dunav osiguranje	1.02
STANKOM Co DOO BEOGRAD	0.70
Evropa Osiguranje AD in bankruptcy	0.52
GLOBAL MARCO CAPITAL OPPORTUNITIES	0.48
Other	8.09
	<u>100.00</u>

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 30.06.2017

RECEIVABLES

In thousand RSD

Subsidiary	Loans and advances	Interest and fees	Other assets	Net	Off-balance	Total
1. Kom.banka AD Budva	6,679	919	-	7,598	-	7,598
2. Kom.banka AD Banja Luka	155,376	-	1,334	156,710	-	156,710
3. Kombank INVEST	-	145	16	161	184	345
TOTAL	162,055	1,064	1,350	164,469	184	164,653

LIABILITIES

In thousand RSD

Subsidiary	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Budva	329,790	-	1,688	331,478
2. Kom.banka AD Banja Luka	147,479	-	-	147,479
3. Kombank INVEST	76	1	-	77
TOTAL:	477,345	1	1,688	479,034

INCOME AND EXPENSES for period 01.01 – 30.06.2017

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Kom.banka AD Budva	45	1,370	-	(627)	788
2. Kom.banka AD Banja Luka	2,041	1,207	-	(446)	2,802
3. Kombank INVEST	-	943	(102)	-	841
TOTAL:	2,086	3,520	(102)	(1,037)	4,431

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gains amounting to RSD 28,840 thousand

4. B. Balance as of 31.12.2016

RECEIVABLES

In thousand RSD

Subsidiary	Loans and advances	Interest and fees	Other assets	Net	Off-balance	Total
1. Kom.banka AD Budva	6.786	937	-	7.723	-	7.723
2. Kom.banka AD Banja Luka	176.389	42	1.580	178.011	370.417	548.428
3. Kombank INVEST	-	163	-	163	200	363
TOTAL:	183.175	1.142	1.580	185.897	370.617	556.514

LIABILITIES

In thousand RSD

Subsidiary	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Budva	438.612	-	1,724	440.336
2. Kom.banka AD Banja Luka	139.615	-	-	139.615
3. Kombank INVEST	145.354	1	2	145.357
TOTAL:	723.581	1	1.726	725.308

INCOME AND EXPENSES for period 01.01- 30.06. 2016.

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commiss. expenses	Net income / expenses
1. Kom.banka AD Budva	49	1,300	-	(1,054)	295
2. Kom.banka AD Banja Luka	2,695	959	-	(364)	3,290
3. Kombank INVEST	-	521	(2)	-	519
TOTAL:	2,744	2,780	(2)	(1,418)	4,104

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 15,271 thousand.

5. RISK MANAGEMENT

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

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

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

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects on financial result and equity within acceptable risk levels, diversification of risks the Bank is exposed to, maintaining the required level of capital adequacy, maintaining the NPL to total loans to an acceptable level for the Bank, the highest acceptable level of non-performing loans, developing the Bank's activities in accordance with business strategy, opportunities and market development with a view to gain competitive advantage. The risk management objectives are aligned with the Bank's business plan and may be modified during the year.

As of June 30, 2017 the Bank implements Basel III 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 Bank. Through the clearly defined process of introducing new products, the Bank analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Bank's financial result.

Risk Management System

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

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

Risk Management Strategy sets out:

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

Risk Management Strategy also defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets to the Bank.

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

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

The principles of managing bad assets and non-performing receivables include:

- Actively managing non-performing receivables;
- Preventive measures and activities in order to minimize further deterioration of assets quality;
- Defining bad assets management strategy - a set of actions and measures for the recovery of the financial status of the debtor or initiating a corresponding enforced collection;
- Early identification of the borrowers facing financial difficulties or in delay or status of default (Watch list);
- Borrower financial status evaluation;
- Set of indicators for inclusion of debtors in responsibility of the bad assets managing organizational units;
- Bad assets segmentation;
- The principle of materiality in defining possible measures;
- Increased frequency of monitoring collateral value and assets acquired through collection;
- Organizational separation of NPL prevention and management sector;
- Transparent reporting.

Policies for managing certain risk types define the following:

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

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

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

Competencies

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

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

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

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

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

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

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

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

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

Risk Management Process

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

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

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

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

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

Risk Types

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

5.1. Credit Risk

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

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

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

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

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

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

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

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

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.

The basic principles of credit risk management are as follows:

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

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

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

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

Identification of problematic and restructured claims

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

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

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

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

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred. The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (reduction of interest rates, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. In addition, receivables that are classified in the category of restructured debts are those for which:

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

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

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

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not greater 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.

Downgrade Risk

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

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

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

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

Risk of Change in Value of Assets

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

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

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

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

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

Individual Assessment

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

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

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

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

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

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

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

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

Group Assessment

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

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

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

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

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

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

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

Means of protection against credit risk (collaterals)

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

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

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

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

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

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

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

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

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

5.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of June 30, 2017 and December 31, 2016 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum Credit Risk Exposure before Collateral or any Other Improvements

	30.06.2017		31.12.2016	
	Gross	Net	Gross	Net
I. Assets	414,617,229	373,998,542	442,110,850	400,017,469
Cash and cash funds held with the central bank	48,163,638	48,163,638	55,153,209	55,153,209
Loans and receivables due from banks and other financial institutions	35,202,405	34,922,924	40,911,287	40,601,413
Loans and receivables due from customers	169,795,065	141,862,687	180,056,414	150,411,409
Financial assets	130,852,949	130,691,725	136,532,653	136,366,773
Other assets	8,319,159	5,669,828	8,901,845	6,252,855
Non-monetary assets	22,284,014	12,687,740	20,555,442	11,231,810
II. Off-balance sheet items	28,821,206	28,686,668	31,819,175	31,388,234
Payment guarantees	3,358,398	3,305,817	3,635,706	3,572,933
Performance bonds	4,949,153	4,935,568	6,728,901	6,695,266
Irrevocable commitments	20,303,104	20,256,739	20,862,103	20,811,873
Other items	210,551	188,544	592,465	308,162
Total (I+II)	443,438,435	402,685,209	473,930,025	431,405,703

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

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

30.06.2017	In thousand RSD							
	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Total impairment	Net	
Housing Loans	-	-	36,773,553	1,420,023	38,193,575	188,490	781,588	37,223,498
Cash Loans	-	-	21,919,252	742,647	22,661,899	332,497	741,844	21,587,559
Agricultural Loans	-	-	6,698,640	426,346	7,124,986	95,935	373,766	6,655,286
Other Loans	-	-	5,303,197	672,703	5,975,900	83,805	672,703	5,219,392
Micro Business	-	-	7,662,490	668,324	8,330,814	141,207	255,163	7,934,444
Total Retail	-	-	78,357,132	3,930,043	82,287,175	841,934	2,825,063	78,620,178
Large corporate clients	-	-	27,198,416	23,622,714	50,821,130	129,993	19,406,185	31,284,951
Middle corporate clients	-	-	11,321,212	2,335,526	13,656,738	112,108	1,583,868	11,960,763
Small corporate clients	-	-	4,365,225	1,444,264	5,809,489	63,342	748,088	4,998,059
State owned clients	2,434,860	-	7,185,112	2,412,016	12,031,988	55,975	621,357	11,354,656
Other	-	-	3,644,149	1,544,396	5,188,545	70	1,544,396	3,644,079
Total Corporate	2,434,860	-	53,714,114	31,358,916	87,507,890	361,489	23,903,893	63,242,508
Total	2,434,860	-	132,071,247	35,288,958	169,795,065	1,203,422	26,728,955	141,862,687
Due from banks	34,922,924	-	-	279,480	35,202,405	-	279,480	34,922,924

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

Impaired Loans and Receivables

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

Receivables Matured but not Impaired

In first half of 2017 and in 2016, the Bank did not have matured and not impaired placements.

Receivables not Matured and not Impaired

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

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

5.1.2. Non-performing receivables

	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing receivables (%)	In thousand RSD The amount of collateral for non-performing receivables
30.06.2017	82,287,175	3,666,996	4,839,779	935,936	3,142,206	5,88%	2,828,941
Retail							
Housing Loans	38,193,575	970,077	1,968,346	456,879	890,085	5,15%	1,624,961
Cash Loans	22,661,899	1,074,340	952,134	40,152	882,625	4,20%	180,244
Agricultural Loans	7,124,986	469,701	505,066	41,269	413,486	7,09%	317,884
Other	5,975,900	756,508	684,175	130	672,857	11,45%	18,132
Micro Businesses	8,330,814	396,369	730,059	397,505	283,152	8,76%	687,720
Corporate	87,507,890	24,265,382	31,522,788	25,028,311	23,910,259	36,02%	24,125,651
Agriculture	6,377,970	180,068	254,946	40,773	135,275	4,00%	186,871
Manufacturing Industry	28,987,070	9,162,499	13,854,359	11,607,745	9,070,453	47,79%	13,051,601
Electric Energy	104,198	34,783	-	-	-	0,00%	-
Construction	3,513,118	1,184,367	1,189,274	1,054,874	1,143,790	33,85%	1,139,802
Wholesale and Retail	21,379,982	4,077,346	4,889,131	3,952,499	3,976,922	22,87%	4,213,747
Service Activities	9,594,200	2,448,176	2,833,614	2,827,301	2,428,827	29,53%	2,152,737
Real Estate Activities	1,546,483	688,494	1,364,664	958,412	685,929	88,24%	1,281,009
Other	16,004,868	6,489,648	7,136,800	4,586,706	6,469,064	44,59%	2,099,884
Total	169,795,065	27,932,378	36,362,567	25,964,246	27,052,465	21,42%	26,954,592
Due from banks	35,202,405	279,480	279,480	-	279,480	0,79%	-

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

5.1.3. Non problematic receivables

	30.06.2017				31.12.2016				In thousand RSD	
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)		Total
Housing Loans	35,881,356	343,795	79	36,225,230	35,457,883	36,697,560	568,687	5,520	37,271,767	36,280,871
Cash Loans	21,611,027	97,591	1,147	21,709,765	14,176,804	18,905,257	61,140	1,635	18,968,032	13,486,892
Agricultural Loans	6,586,298	31,030	2,593	6,619,921	5,880,623	6,054,901	24,463	2,586	6,081,950	5,549,102
Other Loans	5,260,247	28,659	2,820	5,291,725	167,527	5,194,917	40,824	4,046	5,239,787	160,510
Micro Businesses	7,209,095	324,172	67,488	7,600,755	8,706,465	6,095,662	288,095	192,331	6,576,088	7,684,003
Retail	76,548,023	825,247	74,126	77,447,396	64,389,303	72,948,297	983,209	206,119	74,137,624	63,161,378
Large corporate clients	23,650,051	3,548,365	-	27,198,416	34,408,402	28,720,712	4,027,940	-	32,748,652	40,339,321
Middle corporate clients	11,135,062	182,792	-	11,317,854	16,895,726	16,034,901	358,702	-	16,393,603	22,435,244
Small corporate clients	4,061,370	283,023	-	4,344,392	6,118,786	6,190,681	431,993	30,119	6,652,793	9,185,646
State owned clients	7,935,710	1,484,562	62,234	9,482,506	5,753,502	6,638,454	500,825	1,308,275	8,447,554	6,226,630
Other	1,587	3,640,034	312	3,641,933	4,220,468	216	4,027,641	421	4,028,278	4,872,186
Corporate Clients	46,783,779	9,138,776	62,546	55,985,102	67,396,884	57,584,964	9,347,101	1,338,815	68,270,880	83,059,027
Total	123,331,802	9,964,023	136,672	133,432,498	131,786,187	130,533,261	10,330,310	1,544,934	142,408,504	146,220,405
Due from banks	34,922,924	-	-	34,922,924	394,931	40,601,413	-	-	40,601,413	223,425

5.1.4. Restructured receivables

Measures implemented by the Bank during the restructuring of loans

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

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

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

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

5.1.5. Concentration Risk

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

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

5.2. Liquidity Risk

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

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

Liquidity risk represents the Bank's inability to settle its matured liabilities. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

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

In order to minimize liquidity risk, the Bank:

- diversifies sources of assets in respect to their currencies and maturities;
- forms sufficient liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity levels on a daily basis;
- limits principal sources of credit risk with most significant impact on liquidity;
- defines and periodically tests Plans for Liquidity Management in Crisis Situations.

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the second quartet 2017, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

The Bank's operations are reconciled daily with legally prescribed liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. The Bank also monitors compliance with the regulatory prescribed 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 Bank adjust its operation with the regulated indicator of liquidity coverage ratio, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Narrow liquidity ratio		Liquidity coverage ratio	
	30.06.2017.	31.12.2016.	30.06.2017.	31.12.2016.	30.06.2017.	31.12.2016.
As at	5.48	2.86	5.02	2.54	655%	596%
Average for the period	3.68	3.00	3.19	2.59		
Maximum for the period	5.50	3.62	5.02	3.16	-	-
Minimum for the period	2.79	1.88	2.42	1.67	-	-

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.06.2017.	31.12.2016.
GAP up to 1 month / Total assets	Max (10%)	4.72%	7.00%
Cumulative GAP up to 3 months / Total assets	Max (20%)	6.89%	10.02%

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

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

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

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

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

The Bank 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.

5.3. Market Risk

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

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

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

5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Bank to the interest rate risk and implementing measures for interest rate risk mitigation. Control and monitoring of interest rate risk entails the process of monitoring compliance with the established system of limits as well as monitoring defined measures for reducing the Bank's exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

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

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

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

	Limits	30.06.2017.	31.12.2016.
Relative GAP	Max 15%	2.38%	1.33%
Mismatch ratio	0.75 – 1.25	1.03	1.02

During the second quarter 2017, interest rate risk ratios were within internally prescribed limits.

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

Compliance with internally defined limits of economic value of equity:

	30.06.2017.	31.12.2016.
As at	4.49%	4.61%
Average for the period	3.76%	4.58%
Maximum for the period	4.49%	5.03%
Minimum for the period	3.03%	3.96%
Limit	20%	20%

The Bank's management believes that appropriate compliance of positions 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.

5.3.2. Currency Risk

Currency risk represents the possibility of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals.

All items in the banking book and the trading book that are denominated in a foreign currency and gold, including dinar items indexed to foreign currency clause are exposed to currency risk.

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

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

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

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

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

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

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

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

Reporting on currency risk includes internal and external reporting systems. It is performed on a daily basis and according to set schedules and in accordance with the defined system.

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

Overview of the total currency risk balance and legally defined currency risk ratio at June 30th:

	30.06.2017.	31.12.2016.
Total currency risk balance	1,965,116	1,366,855
Currency risk ratio	4.43%	2.96%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

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

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

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

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

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

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

5.8. Capital Management

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

The calculation of the amount of capital and capital adequacy ratios is reconciled with the Basel III regulatory standards as of June 30, 2017.

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

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

The Bank's regulatory capital represents the sum of the Tier 1 Capital (Common Equity Tier 1 - CET1 Capital and Additional Tier 1 Capital) and Tier 2 Capital, reduced for deductible items. The capital adequacy ratios represent the Bank's capital (total capital, Tier 1 capital and 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 are determined according to risk weights prescribed for all types of assets. Risk exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio	In thousand RSD	
	30.06.2017.	31.12.2016.
Tier 1 Capital	51,092,309	44,667,035
Common Equity Tier 1 Capital	50,718,799	-
Additional Tier 1 Capital	373,510	-
Tier 2 Capital	605,567	4,175,529
Deductible items	(7,359,106)	(2,611,859)
Capital	44,338,770	46,230,705
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	128,730,566	147,355,392
Risk exposure amount for operational risk	31,680,737	21,710,322
Risk exposure amount for market risks	3,841,938	2,338,631
Capital adequacy ratio (min 8%+6.7pp)	26.99%	26.97%
Tier 1 capital adequacy ratio (min 6% +6.7pp)	26.63%	-
Common Equity Tier 1 Capital adequacy ratio (min 4.5%+6.7pp)	26.40%	-

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 should be increased by percentage for the total combined buffer requirement. As of June 30, 2017 the total combined buffer requirement amounts to 6.7%.

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

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

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

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

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

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.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 30 June 017 and 31 December 2016 for certain main currencies are as follows:

Currencies	Official NBS rate	
	2017	2016
USD	105.6461	117.1353
EUR	120.8486	123.4723
CHF	110.3842	114.8473

In Belgrade,
on 28.07.2017

Persons responsible for drafting the
financial statements



A handwritten signature in blue ink is written over a blue circular stamp. The stamp contains the text 'KOMERCIJALNA BANKA AD BEOGRAD' around the perimeter and the number '4' in the center. A horizontal line is drawn across the signature and stamp.



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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2017 to 30/06/2017 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by January 1, 2009, which were translated and published in the Official Gazette, in October 2010, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements


Snežana Pejčić
Director of the
Accounting Division


Savo Petrović
Executive Director for
Finance and Accounting

