KOMERCIJALNA BANKA

Meni najbliža

KOMERCIJALNA BANKA AD BELGRADE, 2018 FIRST-QUARTER REPORT

Belgrade, May 2018

TABLE OF CONTENTS

KOMERCIJALNA BANKA AD BELGRADE, 2018 FIRST-QUARTER REPORT

Belgrade, May 2018

TABLE OF CONTENTS

1. OVERVIEW OF BASIC PERFORMANCE INDICATORS FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2018

DESCRIPTION	March 31, 2018	February 28, 2018	January 31, 2018	2017	2016
PROFIT AND LOSS ACCOUNT (000 RSD)					
Profit/loss before tax	1.986.846	1.294.182	721.898	7.187.250	-8.377.636
Net interest income	3.098.218	1.985.173	1.033.379	12.446.197	13.462.734
Net fee income	1.201.560	753.851	376.375	5.082.227	4.817.314
Operational expenses (000 RSD)	2.600.897	1.705.243	860.729	10.833.081	11.086.858
Net expenses/incomes from indirect write-off of placements and provisions (000 RSD)	231.041	237.376	135.244	17.883	-14.907.539

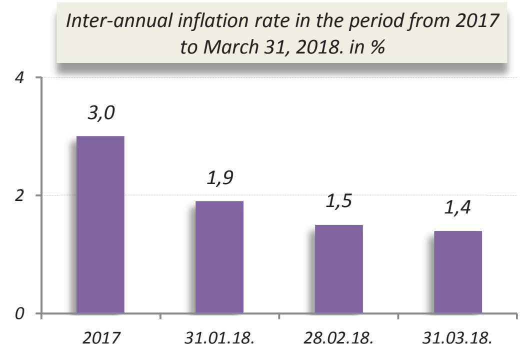
DESCRIPTION	March 31, 2018	February 28, 2018	January 31, 2018	2017	2016
BALANCE SHEET (000 RSD)					
On-balance sheet assets	367.061.517	368.024.138	372.784.549	369.183.538	400.017.469
Off-balance sheet operations	468.142.986	462.908.247	477.301.617	474.428.780	520.370.274
RETAIL					
Loans[1]	83.705.499	82.177.010	81.943.429	81.712.222	75.522.465
Deposits[2]	244.420.569	241.415.730	241.489.532	241.210.420*	231.312.395
CORPORATE					
Loans	69.431.410	68.535.217	69.944.200	71.725.704	74.083.897
Deposits	39.009.674	41.751.425	44.946.048	41.371.592**	78.300.568

INDICATORS	March 31, 2018	February 28, 2018	January 31, 2018	2017	2016
LOAN/DEPOSIT RATIO					
Gross loan/deposit	60,72%	59,76%	60,03%	61,30%	58,74%
Net loan/deposit	55,43%	54,45%	54,74%	56,11%	50,70%
CAPITAL (000 RSD)	64.328.213	63.624.803	63.088.327	63.260.055	55.424.302
Capital adequacy	28,18%	28,35%	28,25%	27,89%	26,97%
Number of employees	2.821	2.821	2.815	2.806	2.858
PROFITABILITY PARAMETERS					
ROA	2,2%	2,1%	2,3%	1,9%	-2,1%
ROE – on share capital	12,5%	12,3%	13,7%	11,9%	-13,9%
Net interest margin on total assets	3,4%	3,2%	3,3%	3,3%	3,3%
Cost/income ratio	60,49%	62,26%	61,06%	61,80%	60,65%
Operating cash flows	3.199.418	2.219.862	1.091.289	9.231.864	7.987.047
Assets per employee (000 EUR)	1.099	1.105	1.115	1.111	1.134
Assets per employee (000 RSD)	130.118	130.459	132.428	131.569	139.964

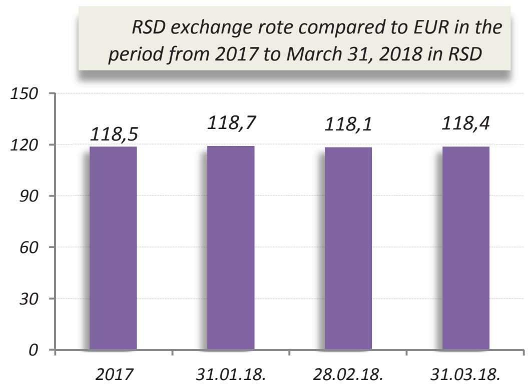
1 Loans (retail and corporate) do not include other placements and receivables
2 Deposits do not include other liabilities and funds received through credit lines
**) From January 1, 2018 micro client deposits were transferred from the corporate business function to the retail business function, which is why the data published in the Annual Report are different –correction made for the comparability of data from 2017 to 2018,*
***) The same*

2. MACROECONOMIC OPERATING CONDITIONS FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2018

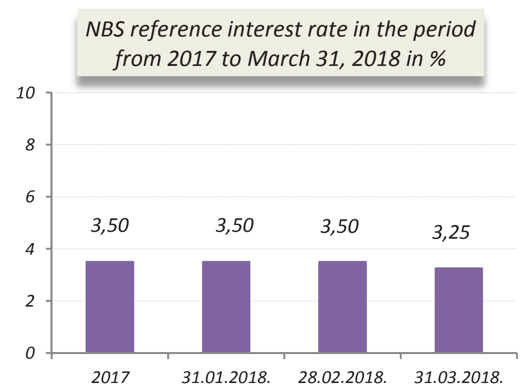
The trend of inflation trends from 2017, and within the limit of targeted rates by the end of 2018 (3.0 ± 1.5%), continued in the first quarter of 2018, so the yoy inflation rate at the end of the first quarter of 2018 is 1.4% year-to-year. Inter-annual inflation rate since the beginning of the year declined and its movement in March was defined by the depression of prices of tourist arrangements, the depression of prices of oil products and the rising prices of fresh fruit, meat, milk and dairy products.



In the first quarter of the current year, dinar did not significantly depreciate against the euro. RSD exchange rate has stabilized at levels of about RSD 118 for one euro, among other things, as a result of the intervention of the National Bank of Serbia (net purchase of around EUR 400.0 million).



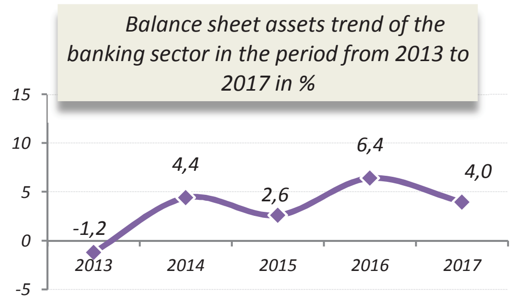
From the end of 2017, NBS reference interest rate has been gradually lowered by the end of the first quarter of 2018. This kind of decision has been made in light of the inflation projection and its factors in the forthcoming period. In the coming months, inflation is expected to slow down, followed by a gradual approach to the central target value over the next year. This should contribute to the growth of domestic demand. Events on the international financial market and the world price movement of primary products have been the cause for caution in managing monetary policy. By reducing the reference interest rate, NBS will further boost banks' credit activity and economic growth.



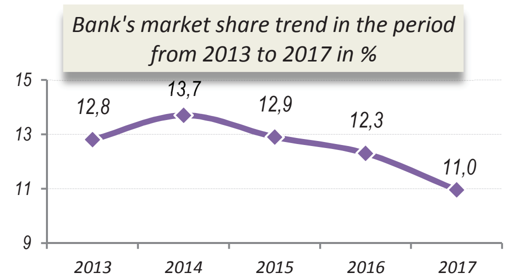
3. BANKING SECTOR AND THE FINANCIAL STATUS OF THE BANK

The banking sector of the Republic of Serbia, at the end of 2017, makes a total of 29 banks with 23,055 employees[3], with total assets of RSD 3,369.4 billion and a total capital of RSD 667.1 billion. Ten largest banks per on-balance-sheet assests account for 78.4% of total sector assets. The net pre-tax result of the banking sector was 3.2 times higher than during last year. According to the available unaudited financial statements, in the banking sector, bank`s have been ranked second by the volume of on-balance-sheet assets and fourth by the amount of pre-tax profit.

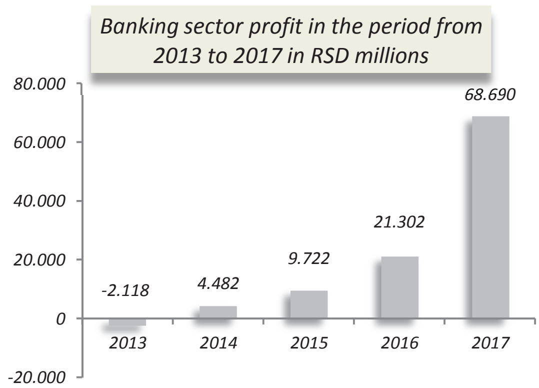
The banking sector in the Republic of Serbia achieved growth of on-balance-sheet assets at the end of 2017 compared to the end of 2016 by 4.0%. At the end of 2017, the total capital of the sector increased by 5.5% compared to the end of 2016. Capital adequacy of the banking sector at the end of the fourth quarter of 2017 amounted to 22.6%.



Loan portfolio is still carefully managed and increased coverage of NPL's with value adjustments (63.7% at the end of 2017) caused the Bank to slightly reduce its share of total banking sector assets to 11.0% (- 1.3 pp.) and 9.5% of Serbian banking sector total capital at the end of 2017.



In 2017, the banking sector recorded a rise in profitability compared to 2016. At the end of 2017, a positive net financial result (pre-tax), and it amounted to RSD 68.7 billion. In the observed period, 22 banks achieved positive operational results with the overall result of RSD 73.9 billion, while 7 banks achieved negative operational results with a total loss of RSD 5.2 billion.



[3] NBS, Macroeconomic Trends in Serbia, April 2018

4. ORGANIZATIONAL STRUCTURE AND BODIES OF THE BANK

The Board of Directors of the Bank has been formed in accordance with the Law on Banks and the Shareholders' Agreement - the Republic of Serbia and the Group of International Financial Institutions (EBRD, IFC, DEG, SwedFund). It has eight members, including the president, two of whom are independent persons. The members of the Board of Directors are appointed by the Shareholders Assembly of the Bank for a period of four years.
The responsibilities of the Board of Directors of the Bank are defined in Article 73 of the Law on Banks and Article 27 of the Bank Statute. The members of the Board of Directors of the Bank on March 31, 2018 are:

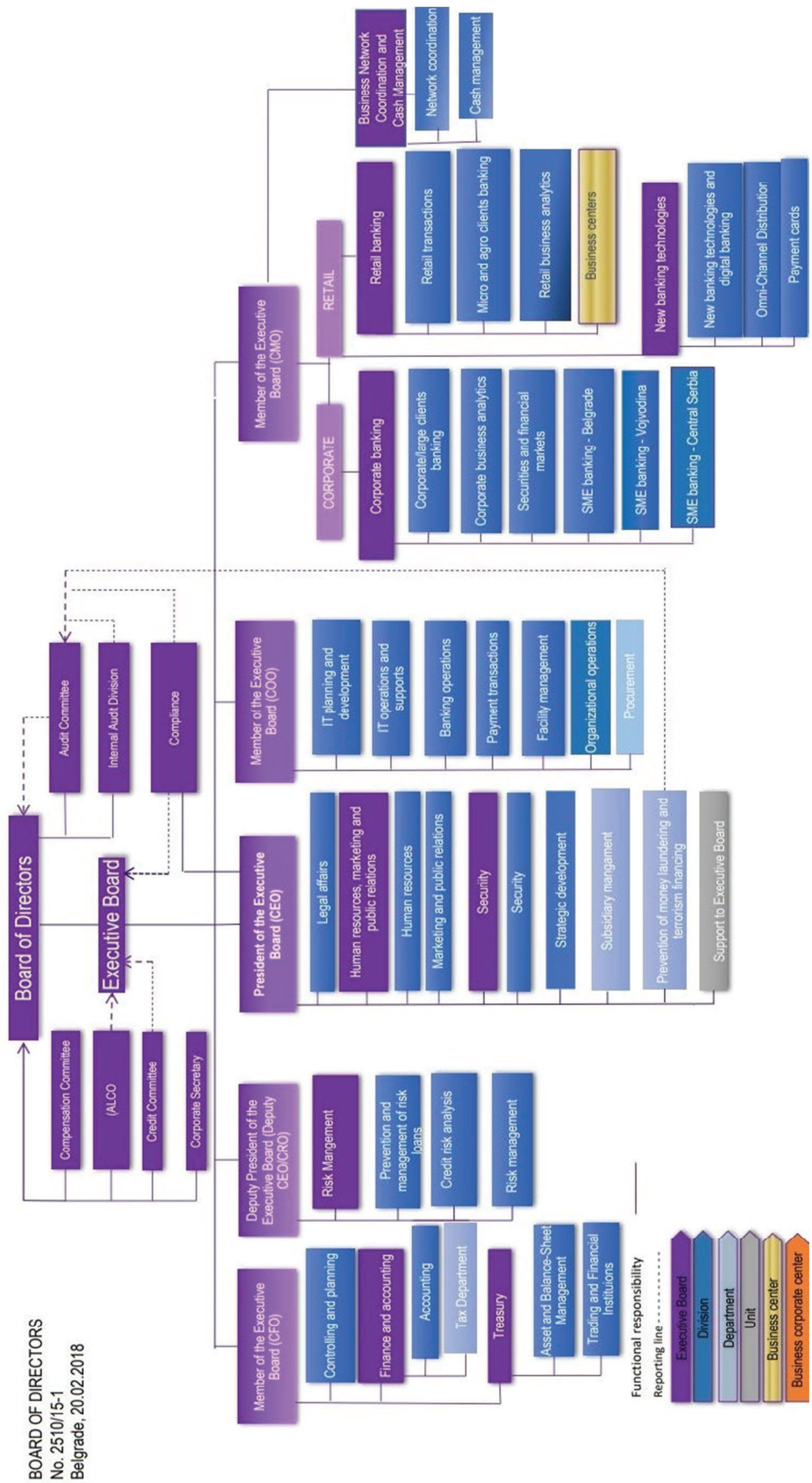
NAME AND SURNAME	FUNCTION
Mila Korugić Milošević	President
Mirjana Ćojbašić	Member, representative of the Republic of Serbia
Ljilja Jovanović	Member, representative of the Republic of Serbia
Andreas Klingen	Member, EBRD representative
Philippe Delpal	Member, EBRD representative
Khosrow Zamani	Member, IFC representative
Olivera Matić Brbora	Independent member
Mats Kjaer	Independent member

The Executive Board consists of the President of the Executive Board, Deputy President of the Executive Board and at least three members. The mandate of the members of the Executive Board of the Bank including the President and the Deputy President is four years from the date of the appointment.
The responsibilities of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank Statute.
The members of the Executive Board of the Bank on March 31, 2018 are:

NAME AND SURNAME	FUNCTION
-	-
Sladjana Jelić	Deputy President
Dragiša Stanojević	Member
Dr Dejan Tešić	Member
Miroslav Perić	Member

Committee for Supervision of Bank's Operations (Audit Committee) consists of three members, two of which are members of the Bank's Board of Directors, with adequate experience in the field of finance. One member of the Committee for Supervision of Bank's Operations is a person independent of the Bank. Committee members are elected for a period of four years.
The duties of the Committee for Supervision of Bank's Operations are defined in Article 80 of the Law on Banks and in Article 34 of the Bank Statute. Members of the Committee for Supervision of Bank's Operations as of March 31, 2018 are:

NAME AND SURNAME	FUNCTION
Mats Kjaer	President
Andreas Klingen	Member
Milena Kovačević	Member



Note: Organizational structure of the bank, as of March 31, 2018

During the first quarter of 2018, the Bank conducted the reorganization of the business network in order to increase efficiency, effectiveness and working productivity.

The reorganization of the business function Corporate operations was conducted on March 2, 2018. As a part of these activities, the following has been conducted:

- organizational changes,
- personnel changes,
- changes in business processes and activities as well as
- changes in management structure.

The implemented reorganization resulted in a reduction in the number of organizational units in the segment of small and medium enterprises, the previous five business-corporate centers (Belgrade, Novi Sad, Užice, Niš, Kragujevac) were reorganized into three Sectors for small and medium corporate clients (Belgrade, Vojvodina and Central Serbia).
In addition to this, the Bank has undertaken the decentralization of the credit analysis process in order to accelerate the credit process and working efficiency. Instead of the centralized credit analysis, credit analysis has been linked to the sales function within teams in Small and Medium Corporate Clients Sector.
In order to achieve the planned goals, the planned budgets for the implementation of business activities have been transferred ("lowered") to the Sector i.e. teams within the Sector, so the Sectoral Directors and Team Leads are now responsible for the implementation of the allocated budgets.

5. *FINANCIAL STATUS AND OPERATIONAL RESULTS OF THE BANK FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2018*

DESCRIPTION	March 31, 2018	February 28, 2018	January 31, 2018	2017	2016
BALANCE SHEET (000 RSD)					
On-balance sheet assets	367.061.517	368.024.138	372.784.549	369.183.538	400.017.469
Off-balance sheet operations	468.142.986	462.908.247	477.301.617	474.428.780	520.370.274
RETAIL					
Loans	83.705.499	82.177.010	81.943.429	81.712.222	75.522.465
Deposits	244.420.569	241.415.730	241.489.532	241.210.420*	231.312.395
CORPORATE					
Loans	69.431.410	68.535.217	69.944.200	71.725.704	74.083.897
Deposits	39.009.674	41.751.425	44.946.048	41.371.592**	78.300.568

**Note: Starting from January 1, 2018 micro client deposits have been transferred from the business function of corporate clients to retail business function, which is why the data published in the Annual Report are different - the correction was made for the comparability of data from 2017 to 2018*
*** The same*

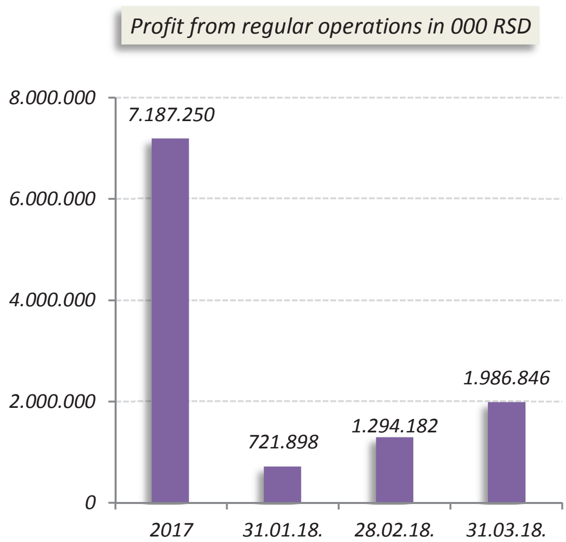
On March 31, 2018 on-balance sheet assets of the Bank amounted to RSD 367,061.5 million and decreased by RSD 2,122.0 million or 0.6% compared to the end of 2017.

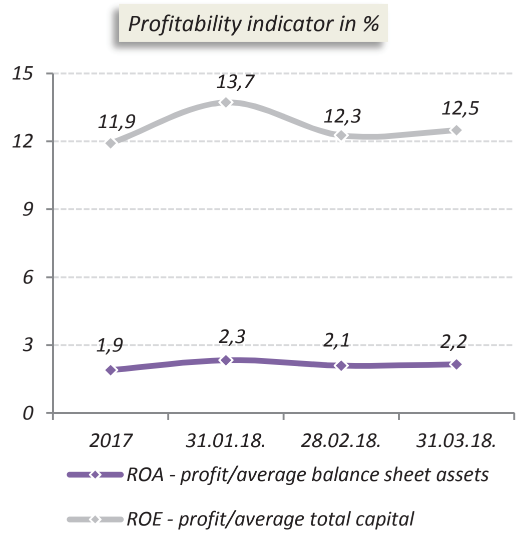
Off-balance sheet assets decreased by 1.3% in the first quarter of 2018, and at the end of March this year amounted to RSD 468,143.0 million.

During the first three months of 2018, the Bank reduced its debt through credit lines in the amount of RSD 1,590.2 million compared to the end of 2017 (-21.5%). During the same period, the Bank recorded an insignificant decline in deposits (excluding other liabilities and credit lines) in the amount of RSD 270.5 million or 0.1%. In the structure of the mentioned changes, the retail deposits increased by RSD 3.210.1 million, while the legal persons' deposits declined by RSD 2.361.9 million.

The above mentioned changes also include the effect of depreciation of dinar against the euro (0.1%) and the Swiss franc (0.6%) from the beginning of the year to the end of the first quarter of 2018.

DESCRIPTION	March 31, 2018	February 28, 2018	January 31, 2018	2017	2016
PROFIT AND LOSS ACCOUNT (000 RSD)					
Profit/loss before tax	1.986.846	1.294.182	721.898	7.187.250	-8.377.636
Net interest income	3.098.218	1.985.173	1.033.379	12.446.197	13.462.734
Net fee income	1.201.560	753.851	376.375	5.082.227	4.817.314
Operational expenses (000 RSD)	2.600.897	1.705.243	860.729	10.833.081	11.086.858
Net expenses/incomes from indirect write-off of placements and provisions (000 RSD)	231.041	237.376	135.244	17.883	-14.907.539
PROFITABILITY PARAMETERS					
ROA	2,2%	2,1%	2,3%	1,9%	-2,1%
ROE – on share capital	12,5%	12,3%	13,7%	11,9%	-13,9%
Net interest margin on total assets	3,4%	3,2%	3,3%	3,3%	3,3%
Cost/income ratio	60,49%	62,26%	61,06%	61,80%	60,7%
Operating cash flows	3.199.418	2.219.862	1.091.289	9.231.864	7.987.047
Assets per employee (000 EUR)	1.099	1.105	1.115	1.111	1.134
Assets per employee (000 RSD)	130.118	130.459	132.428	131.569	139.964





Performance of the loan portfolio over the past two years has affected the movement of value adjustment placement amount as well as the coverage of NPLs (non-performing loans) value adjustments (over 64% at the end of 2017). During the first three months of this year, the Bank realized a smaller gain as compared to the same period of the last year. The Bank profit during the period from January 1 to March 31, 2018 amounted to RSD 1,986.8 million, which represents a decrease of RSD 496.0 million (-20.0%) as compared to the same period of the last year. The realized profit provided the Bank (during the first three months of 2018) with return on total capital of 12.5%, i.e. yield on the balance sheet assets of 2.2%.

The gains in the first quarter of 2018, as compared to the same period of the last year, were affected by the decrease of other revenues of RSD 509.7 million as well as realized net income from the impairment of financial resources amounted to RSD 231.0 million, which is an increase of RSD 158.3 million as compared to the same period for last year. Positive effects also include an increase in net gains on the basis of changes in the fair value of financial instruments in the amount of RSD 24.0 million.

Due to the withdrawal of one part of the deposit, a decrease in business volume and a slight increase in the number of employees in the first three months of 2018, assets per employee decreased from RSD 131.6 million (December 31, 2017) to RSD 130.1 million at the end of the first quarter of 2018.

At the end of the first quarter of the current year, cost income ratio (CIR) amounted to 60.49%, while at the end of 2017 it amounted to 61.80%.

5.1. Retail sector

During the first quarter, retail business continued its upward trends from the previous period and achieved, according to majority of indicators, outstanding results. We introduced new products, improved procedures and technological solutions, which led to greater satisfaction in terms of clients due to better products and faster placement approval.

Loans

During the first quarter of 2018, RSD 10.2 billion of loans has been realized, which is 9.2% higher than in the same period during last year. If we observe only January and February, realization is higher by 25% compared to the same period during last year. Last year, due to several factors, March was the month with the highest realization, which led to 9.2% growth in the first quarter, although it was 25% during the first two months.

Realization is the same or higher within all segments.

The highest increase in realization was achieved in **residential loans** (80%) as the current offer has been improved compared to the last year i.e. it has been adapted to fit the needs of the clients. The current offer has been improved by granting fee-free loans and by introducing new, more favorable conditions for certain segments of clients. This year, the Bank will also grant subsidized loans to professional military personnel, thus gradually increasing lending in this segment of clients. In addition, taking into account the declining trend in interest rates on the market, the Bank applies client retention policies with the aim of maintaining the quality and portfolio amount.

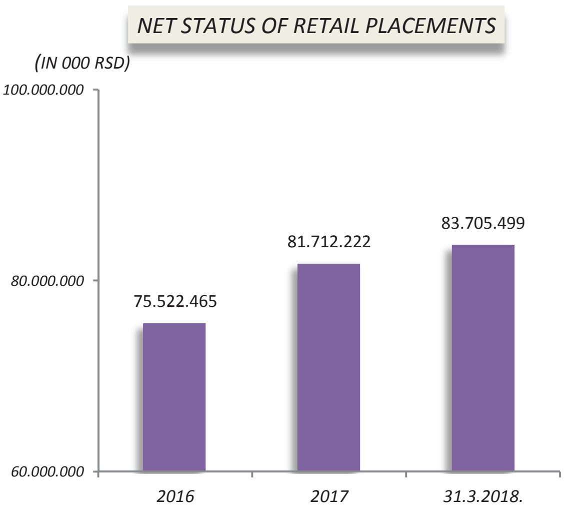
In the segment of **cash loans**, realization growth is 6% (24% during the first two months). It is the segment with the most prominent competition, where the offer is based on large amounts and long terms without solid collateral. Also, the offer is increasingly based on personalized offers for specific customer groups, especially for larger-income clients. Huge attention is also paid to loans for pensioners as they make a significant number of clients. During the first quarter, the Bank's participation in the banking sector in the segment of cash loans has been increased, and it now amounted to 7.2%.

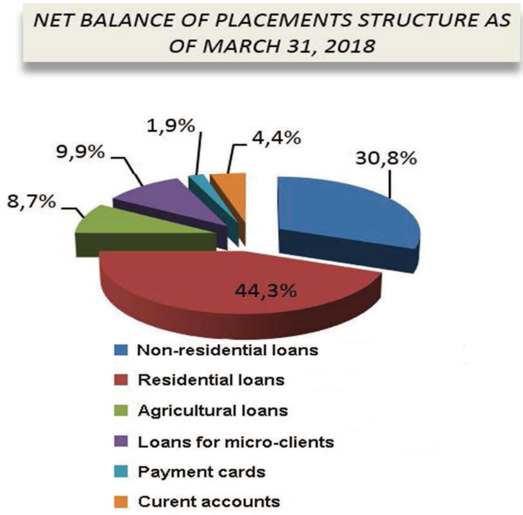
Realization of loans within the agro business is at the same level as last year (for the first two months - growth by 9%). At the end of February this year, a new product catalog was adopted that will make its full affirmation in the coming year. During the first quarter of this year, as usual, loans from the Bank's own offering predominate, while in the following part of the year we continue to approve subsidized loans in cooperation with the Ministry of Agriculture, Forestry and Water Management, local authorities, agricultural machinery dealers etc. In agreement with the Ministry of Agriculture, the Bank got actively involved in the process of financing IPARD projects from the European Union under competitive conditions. During the first quarter there has been an increased share in agricultural loans segment and it now amounts to 12.9%.

The increase in micro-business realization amounted to 6% (first two months - 13%) mainly to the action products and to the completely new product offer that was adopted at the end of December last year.

During the first quater, the highest number of realized loans was in the segment of cash loans (49%), followed by micro business loans (26%), agricultural loans (13%) and residential loans (11%). Out of the total number of realized loans in the first quarter, 61% was granted without a currency clause, mostly cash loans.

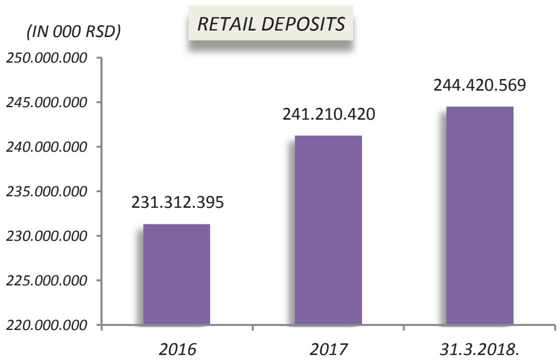
All of the above has led to an increase in net status of retail placements by RSD 2.0 billion.





Deposits[4]

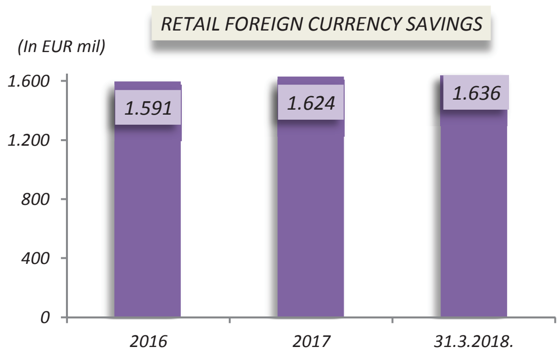
During the first quarter, retail deposits have increased by RSD 3.2 billion.



During the first quarter of 2018, total foreign currency deposits increased by EUR 181 million, while the increase of EUR 17 million enabled the Bank to keep the leading position in the market with a market share of 18.6%.

If we analyze the retail foreign currency savings, they have increased by 12 million euros during the first quarter of 2018.

[4] Deposits do not include other liabilities and funds received through credit lines



* The foreign currency savings shown do not include specific-purpose foreign currency accounts (pensioners) and entrepreneurs

Within foreign currency retail savings, the share of time deposited savings decreased by the time period of up to 12 months and over 12 months and amounted to 33.7%, while the share of a` vista savings has been increased and it amounted to 61.8%. Dominant savings are those in the amount of up to 50,000 euros (over 99% per number of savings, 76% per amount).

After years of decline, passive interest rate on retail foreign currency savings has now stagnated (December 31, 2017 - 0.25% and March 31, 2018 - 0.24%). The continuation of stagnation of passive interest rates is to be expected in the forthcoming period. The Bank is still perceived as the institution of the highest trust, therefore the deposits constantly grow.

Other products

"Set accounts" for micro-businesses that became part of our offer at the end of 2017 have achieved full affirmation in the first quarter of 2018 (approximately 4,000 customers opened a "set account"). New retail clients continue to open "set accounts". During the first quarter, we have opened approximately 29,000 "set accounts".
We continue to digitize our business activities by introducing a new product "Kom4Pay" online payment for electronic banking users. We have also established cooperation with "RIA Money" transfer.

Business network

Business activities in the retail segment are conducted in 204 outlets, which gives us the status of a market leader in the fields of coverage and customer availability. 270 ATMs and approximately 12,600 POS terminals are available to customers, which also gives us the status of one of the market leaders. Bearing in mind the needs of the clients, the Bank has continued to improve its user experience by improving the outlets, moving to new premises, adapting the working time etc.

Profitability

Due to all undertaken business activities, retail business realized total net interest/fee income amounting to RSD 2,313 million, which is a growth of 8.0% compared to the same period during last year.

5.2. Corporate sector

Market - basic tendencies

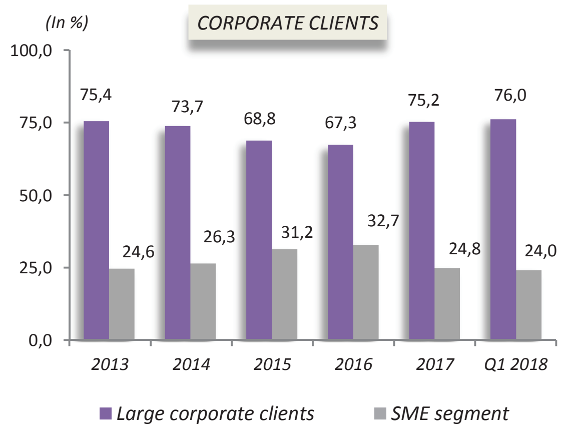
During the first quarter of 2018, the trend of decreasing dinar interest rates continued due to the fall in reference interest rate, while there is obvious stagnation in loans with currency clause.

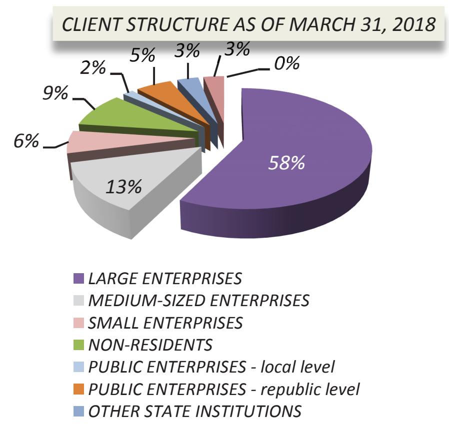
Bank's standards for newly granted corporate loans, which were mitigated in 2017, remained unchanged in the first quarter of 2018, primarily for small and medium-sized enterprises, and to a lesser extent, for large companies. According to maturity period and currency, the mitigation of standards is present in short-term and long-term corporate RSD lending as well as short-term corporate lending with the foreign currency clause. Banks also show greater readiness to take over risk in corporate lending.

During the first quarter of 2018, there was no increased corporate demand for lending. At the level of the banking sector, the level of gross loans is lower compared to the end of 2017 (in total, companies and public enterprises recorded a decrease by 0.5% or RSD 5.7 billion).[5]

Loans[6]

Realization of newly granted loans in 2018 is higher by RSD 2.2 billion compared to the same period in 2017. In the Bank's portfolio, the share of large corporate clients grew from 75.2% to 76.0% as a result of the increase in placements realized in this segment.





The interest rate for EUR-indexed loans is still significantly lower in relation to loans in RSD which, under stable exchange rates, was the decisive market factor for higher demand for loans with currency clause compared to RSD loans. Consequently, the share of RSD loans in the portfolio at the end of the first quarter of 2018 remained at a low level of only 11.5%.

Decrease in interest income compared to the same period during last year was mainly conditioned by the significant decrease in interest rates. During the first quarter of 2018 there was no significant change from performing loans (PLs) to the category of non-performing loans (NPLs).

With regard to competition during the first quarter of 2018, the most active banks were Banca Intesa a.d. Belgrade, UniCredit Bank Serbia a.d. Belgrade, Societe Generale Bank a.d. Belgrade, with occasional market shares and the following banks: ProCredit a.d. Belgrade and Erste Bank a.d. Novi Sad. All competitors show a more flexible approach (interest rates, maturity period, required security instruments) within the process of granting loans.

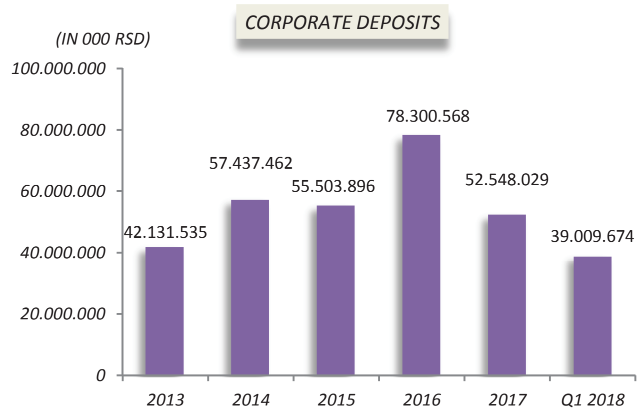
5 NBS, Consolidated Balance Sheet of the Banking Sector, February 2018.

6 Status of the given loans and deposits does not include other placements

Deposits [7]

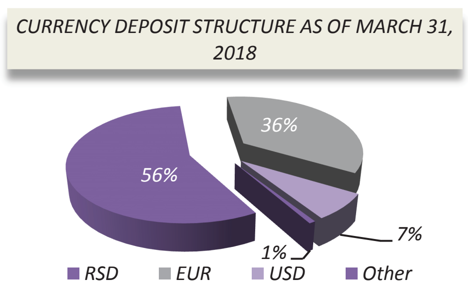
Bearing in mind the strong deposit base and the constantly high liquidity of the Bank, as well as the fact that in the first quarter of 2018 the demand for loans was at a low level, the emphasis was put on managing the amount and structure of the deposit, in order to optimize the source price and reduce the cost of interest.

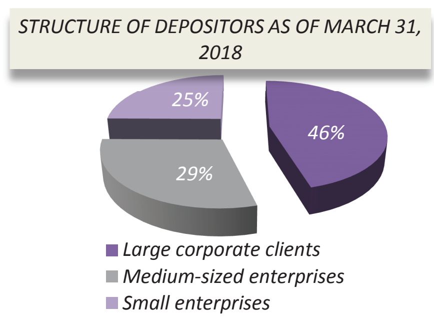
A significant share of transactional deposits - 75% of the total corporate deposits resulted in lower interest expenditure and has a positive impact on the Bank's result.



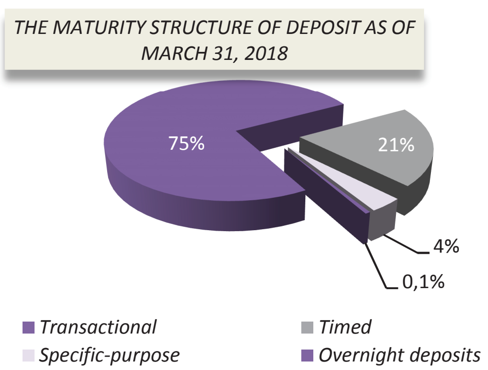
The amount of company deposits in 2018 was influenced by the decision of the Bank to deposit micro clients as of January 1, 2018. are recorded in the deposit of the retail.

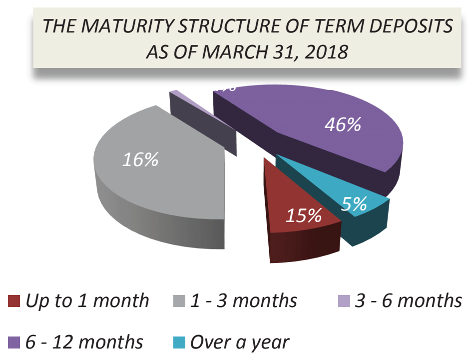
Note: the amount of corporate deposits as of December 31, under the influence of one single deposit.





Note: Overview of the structure of depositors was done on the basis of the internal client segmentation.





[7] Deposits do not include other liabilities and funds received through credit lines

5.3. Asset Management - Treasury

Bearing in mind the strategic orientation of the Bank, Treasury business activity is focused on active asset management and liquidity while ensuring proper functioning of banking operations and meeting the business needs of its customers.

The environment in which Treasury operations functioned was marked by the continuing trend of decreasing key interest rate during the first quarter of 2018 - from 3.50% to 3.25%, further decrease in interest rates, continuing trend of decreasing yield on domestic government securities and the negative interest rates on EUR and CHF in foreign markets, which, given the available funds, represented a very significant challenge in terms of liquidity management.

In 2018, the liquidity position of the Bank was very stable. During the first quarter of 2018, the realization of RSD reserve requirement was 100.07% and the realization of the foreign reserve requirement of 100.11%, while the remaining liquid assets were placed predominantly in government securities of the Republic of Serbia, followed by seven-day reverse REPO operations and overnight deposits with the National Bank of Serbia as well as short-term borrowings on the interbank market.

The Bank participated in 10 of the total of 19 primary auctions of state securities, including 6 RSD securities auctions, out of a total of 11 and 4 EUR securities auctions out of a total of 8 auctions held. In addition to this, having concluded 38 transactions, the Bank was a significant participant in the secondary market of government securities of the Republic of Serbia. During the first quarter of 2018, the Bank remained one of the most active participants in the foreign exchange market.

The Treasury strategy in the forthcoming period will be to cautiously recruit liquid assets in non-risk and low-risk financial instruments and further lowering the cost of source of funds.

6. BALANCE SHEET AS OF MARCH 31, 2018

6.1. Bank's assets as of march 31, 2018

(IN 000 RSD)

No.	DESCRIPTION OF BALANCE SHEET ITEM	MARCH 31, 2018	DECEMBER 31, 2017	INDEX
1	2	3	4	5=3/4
1	Cash and assets held at the central bank	49.109.642	49.840.887	98,53
2	Pledged financial assets	-	-	-
3	Receivables from derivatives	-	-	-
4	Securities	127.547.167	117.288.767	108,75
5	Loans and receivables from banks and other financial organisations	19.553.155	29.543.789	66,18
6	Loans and receivables from clients	153.558.162	153.897.367	99,78
7	Changes of fair values of items that are the subject of risk protection	-	-	-
8	Receivables based on financial derivatives intended for risk protection	-	-	-
9	Investments in affiliated companies and joint ventures	-	-	-
10	Investments in subsidiary companies	2.611.859	2.611.859	100,00
11	Intangible assets	427.924	460.263	92,97
12	Property, facilities and equipment	5.628.973	5.655.248	99,54
13	Investment property	1.932.148	1.988.608	97,16
14	Current tax assets	-	-	-
15	Deferred tax assets	1.402.831	857.096	163,67
16	Fixed assets held for sale and assets of discontinued operations	241.148	241.148	100,00
17	Other assets	5.048.508	6.798.506	74,26
	TOTAL ASSETS (from 1 to 17)	**367.061.517**	**369.183.538**	99,43

Balance sheet assets of the Bank at the end of the first quarter of 2018 decreased by RSD 2,122.0 million or 0.6%.
The structure of the presented balance sheet items shows the domination of increase in securities, which increased in the first quarter of 2018 by RSD 10,258.4 million or 8.7%. The largest part (over 83%) of the aforementioned growth is the result of an increase in securities available for sale - RSD bonds of the Republic of Serbia (an increase by RSD 8.550,1 million).

Loans and receivables from banks and other financial organizations (according to the new balance sheet) decreased by 9,990.6 million RSD, or 33.8%, and loans and receivables from customers by 339.2 million RSD. On March 31, 2018 total placements and receivables from customers and banks amounted to 173,111.3 million RSD, accounting for 47.2% of total balance sheet assets.

During the first three months of the current year, the position of cash and funds with the central bank registered a decrease in the amount of RSD 731.2 million or 1.5%. The reduction of this position was caused mainly by the decrease of foreign currency cash in the treasury by RSD 1,220.5 million and cash in RSD by 454.9 million. Giro account recorded an increase in the observed period by RSD 766.7 million. Other cash positions (foreign currency mandatory reserve and other foreign currency cash) have been increased by RSD 177.8 million.

6.2. Bank's liabilities as of march 31, 2018

(IN 000 RSD)

No.	DESCRIPTION OF BALANCE SHEET ITEM	MARCH 31, 2018	DECEMBER 31, 2017	INDEX
1	2	3	4	5=3/4
1	Liabilities from derivatives	-	7.845	-
2	Deposits and other liabilities towards banks, other financial organizations and the central bank	3.018.436	4.532.505	66,60
3	Deposits and other liabilities towards other clients	292.104.921	292.471.640	99,87
4	Liabilities based on derivatives intended for risk protection	-	-	-
5	Changes of fair value items that are subject of risk protection	-	-	--
6	Liabilities based on securities	-	-	-
7	Subordinated liabilities	-	-	-
8	Provisions	1.499.490	1.368.051	109,61
9	Liabilities based on assets intended for sale and assets of discontinued operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	588.619	-	-
12	Other liabilities	5.521.838	7.543.442	73,20
	TOTAL LIABILITIES (from 1 to 12)	**302.733.304**	**305.923.483**	98,96
	CAPITAL			-
13	Share capital	40.034.550	40.034.550	100,00
14	Bank's own shares	-	-	-
15	Profit	8.962.402	8.137.249	110,14
16	Loss	-	-	-
17	Reserves	15.331.261	15.088.256	101,61
18	Unrealized losses	-	-	-
19	Non-controlling interest	-	-	-
20	**TOTAL CAPITAL (from13 to 19)**	**64.328.213**	**63.260.055**	101,69
	TOTAL LIABILITIES (from 1 to 19)	**367.061.517**	**369.183.538**	99,43

Total liabilities of the Bank at the end of the first quarter of 2018 amounted to RSD 302,733.3 million and accounted for 82.5% of the total liabilities (December 31, 2017: 82.9%). At the same time, total capital amounts to 64,328.2 million RSD and participates in the total liabilities with 17.5% (December 31, 2017: 17.1%). Total liabilities decreased compared to the end of the previous year by RSD 3,190.2 million or 1.0%, while the total capital was increased by RSD 1,068.2 million or 1.7%.

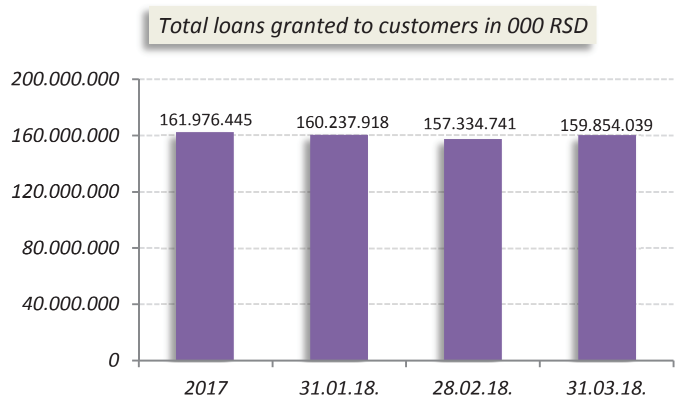
Deposits and other financial liabilities to customers decreased in the reporting period by RSD 366.7 million or 0.1%, while the deposits and other financial liabilities towards banks item decreased compared to the end of the previous year by RSD 1,514.1 million or 33,4%.
Other liabilities decreased by 2,021.6 million RSD or 26.8% (short-term liabilities in foreign currency).

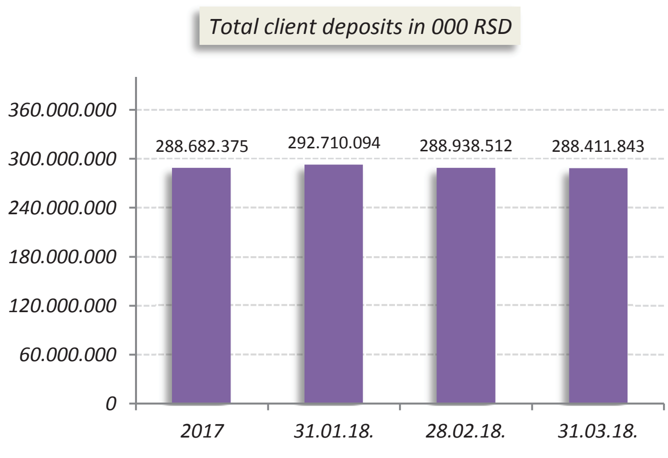
In the first quarter of 2018, provisions recorded an increase of RSD 131.4 million due to the increase in provisions for liabilities and losses on the basis of off-balance sheet assets.

During the first three months of 2018, the decreasing trend in the number of foreign credit lines continued, in the net equivalent of 1,590.2 million RSD, so that balance of dinar countervalue of the respective liabilities as of March 31 amounted to 5,802.1 million RSD.

In the structure of balance sheet liabilities, total deposits and other financial liabilities of banks and clients amount to RSD 295,123.4 million, accounting for 80.4% of total balance sheet liabilities, with a decrease of 1.880,8 million RSD or 0.6% compared to the end of the previous year.

6.3. Loans granted to customers and customer deposits as of March 31, 2018





The most significant category of balance sheet assets, loans granted to customers (excluding other placements and receivables), registered a decrease of 2,122.4 million RSD. The level of loans granted to clients at the end of the first quarter of 2018 was significantly affected by the retail placements, which reached the amount of 83,705.5 million RSD at the end of the first quarter of 2018, which represents a growth of 2.4%, while corporate placements amounted to RSD 69,431.4 million RSD and they decreased by 3.2%.

Total loans to banks, other financial organizations and customers, as of March 31, 2018 amounted to RSD 159,854.0 million and they decreased by 1.3% compared to the end of the previous year.

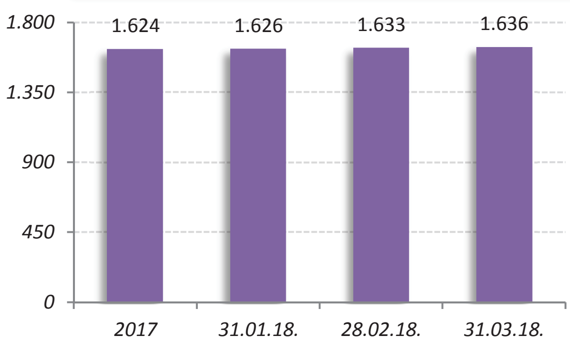
(IN 000 RSD)

NO.	DESCRIPTION	BALANCE AS OF MARCH 31, 2018	BALANCE AS OF DECEMBER 31, 2017	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS GRANTED TO CUSTOMERS (1.+2.+3.)	159.854.039	161.976.445	98,69
1.	Corporate	69.431.410	71.725.704	96,80
2.	Retail	83.705.499	81.712.222	102,44
3.	Banks and Financial Institutions	6.717.131	8.538.519	78,67
II	DEPOSITS RECEIVED FROM CUSTOMERS (1.+2.+3.)	288.411.843	288.682.375	99,91
1.	Corporate	39.009.674	41.371.592	94,29
2.	Retail	244.420.569	241.210.420	101,33
3.	Banks and Financial Institutions	4.981.600	6.100.363	81,66

NOTE:
- granted loans and received deposits are shown according to the previous balance sheet scheme,
- starting from January 1, 2018 micro client deposits have been transferred from the business function of corporate clients to retail business function, which is why the data published in the Annual Report are different - the correction was made for the comparability of data from 2017 to 2018

The change in the deposits of banks, other financial organizations and customers (excluding other liabilities and credit lines) in the first quarter of 2018 is the result of an increase in retail deposits, a decrease in corporate deposits and a decrease in deposits of banks and other financial organizations. Retail deposits in the observed period increased in countervalue of 3,210.1 million RSD i.e. 1.3%, legal clients' deposits decreased in countervalue of 2,362.0 million RSD or 5.7% while deposits of banks and other financial organizations decreased in countervalue of RSD 1,118.8 million i.e. 18.3%.

Foreign currency savings in the period from 2017 to March 31, 2018 in mil EUR



With the reputation of a safe and stable bank in the Serbian market, the Bank managed to increase foreign currency savings deposits by EUR 12.4 million or by 0.8%.

In spite of the reduction in debit rates both in the banking sector and the Bank, the Bank's foreign currency savings increased during the first quarter of 2018 and reached a sum of EUR 1,636.0 million.

Trust of our clients enabled us to maintain the leading position in the banking sector of the Republic of Serbia in terms of volume of foreign currency savings, image and recognisability.

6.4. Off-balance sheet items in 2018

(IN 000 RSD)

NO.	DESCRIPTION	BALANCE AS OF MARCH 31, 2018	BALANCE AS OF DECEMBER 31, 2017	INDEX
1	2	3	4	5=(3:4)*100
1	OPERATIONS FOR AND ON BEHALF OF THIRD PARTIES	4.222.214	4.226.654	99,89
2	FUTURE LIABILITIES	37.488.796	34.941.426	107,29
3	SURETIES RECEIVED FOR FUTURE LIABILITIES	0	0	-
4	DERIVATIVES	0	592.364	-
5	OTHER OFF-BALANCE SHEET ITEMS	426.431.975	434.668.336	98,11
	TOTAL	**468.142.986**	**474.428.779**	98,68

The total off-balance sheet assets of the Bank, during the first quarter of 2018, decreased by RSD 6,285.8 million compared to the end of the previous year.

On March 31, 2018 the assumed future liabilities amounted to a total of 37,488.8 million RSD, which is an increase by 2,547.4 million RSD or 7.3% compared to the end of the previous year, mainly due to an increase in the liabilities for undrawn loans and placements.

Unlike the end of 2017 on March 31, 2018 the off-balance sheet contains no derivatives intended for trading at the contracted value.

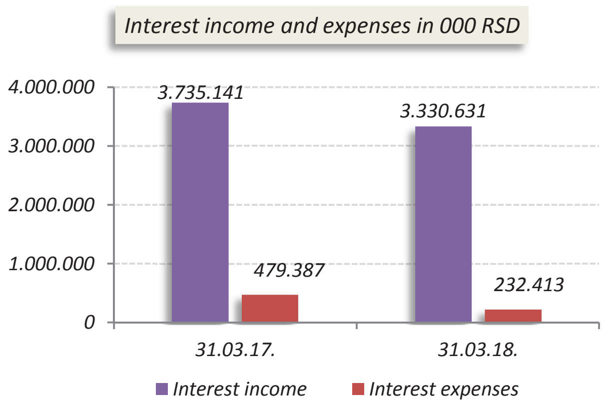
Other off-balance sheet items decreased by RSD 8,236.4 million or 1.9% (change in collateral and financial assets that are recorded off-balance sheet).

7. PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2018

(IN 000 RSD)

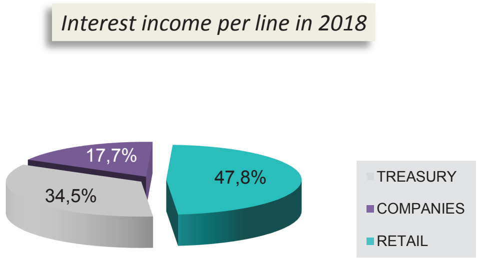
NO.	DESCRIPTION OF BALANCE SHEET ITEM	MARCH 31, 2018	MARCH 31, 2017	INDEX
1	2	3	4	5=(3:4)*100
	INCOME AND EXPENDITURE FROM REGULAR BUSINESS OPERATIONS			
1.1.	Interest income	3.330.631	3.735.141	89,17
1.2.	Interest expenses	(232.413)	(479.387)	48,48
1.	**Net income/expense based on interest**	**3.098.218**	**3.255.754**	95,16
2.1.	Fee and commission income	1.615.670	1.509.206	107,05
2.2.	Fee and commission expenses	(414.110)	(343.704)	120,48
2.	**Net income/expense based on fees and commissions**	**1.201.560**	**1.165.502**	103,09
3.	Net gain/loss on the basis of changes in the fair value of financial instruments	44.982	21.018	214,02
4.	Net gain/loss on the basis of reclassification of financial instruments	-	-	-
5.	Net gain/loss on the basis of expiry of the recognition of financial instruments that are recognized at fair value	37.394	50.718	73,73
6.	Net gain/loss on risk hedging	-	-	-
7.	Net gain/ loss on foreign exchange transactions and e-ects of foreign currency clause	(9.421)	(215)	4.381,86
8.	Net income/expenses based on impairment of financial assets that are not recognized according to fair value in profit and loss account	231.041	72.775	317,47
9.	Net gain/loss on the basis of expiry of the recognition of FIs that are recognized at depreciation value	-	-	-
10.	Net gain/loss on the basis of expiry of recognition of investments in associated companies and joint ventures	-	306	-
11.	Other operating income	38.451	43.302	88,80
12.	**TOTAL NET OPERATING INCOME**	**4.642.225**	**4.609.160**	100,72
13.	**TOTAL NET OPERATING EXPENSES**			
14.	Wages, salaries and other personal expenses	(1.103.867)	(1.098.357)	100,50
15.	Depreciation costs	(145.205)	(147.263)	98,60
16.	Other income	72.670	582.355	12,48
17.	Other expenses	(1.478.977)	(1.463.063)	101,09
18.	**PROFIT BEFORE TAX**	**1.986.846**	**2.482.832**	80,02
19.	**LOSS BEFORE TAX**			
20.	Profit tax			
21.	Profit from deferred tax			
22.	Loss from deferred tax			
23.	**PROFIT AFTER TAX**	**1.986.846**	**2.482.832**	80,02
24.	**LOSS AFTER TAX**			
25.	Net prot from discontinued operations			
26.	Net loss from discontinued operations			
27.	**RESULT FOR THE PERIOD – PROFIT**	**1.986.846**	**2.482.832**	80,02
28.	**RESULT FOR THE PERIOD – LOSS**			
29.	Profit belonging to the parent bank			
30.	Profit belonging to owners with no controlling rights			
31.	Loss belonging to the parent bank			
32.	Loss belonging to owners with no controlling rights			
33.	Earnings per share			
34.	Base earnings per share			
35.	Reduced (diluted) earnings per share			

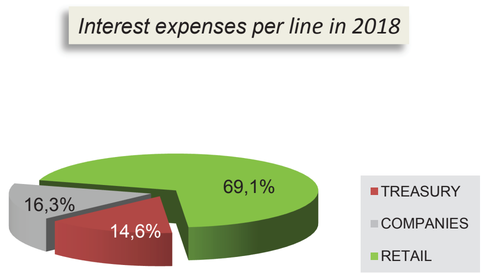
7.1. Interest income and expenses



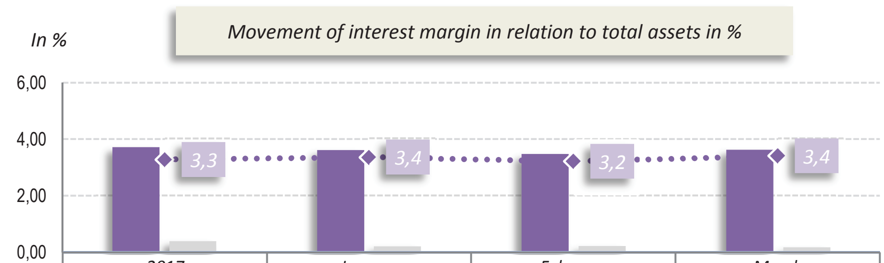
Interest profit amounts to 3,098.2 million RSD, which, compared to the same period during the previous year, is a decrease by 4.8%.

Compared to the first quarter of the previous year, interest income decreased by RSD 404.5 million or 10.8%, while interest expenses decreased by RSD 247.0 million or 51.5%.





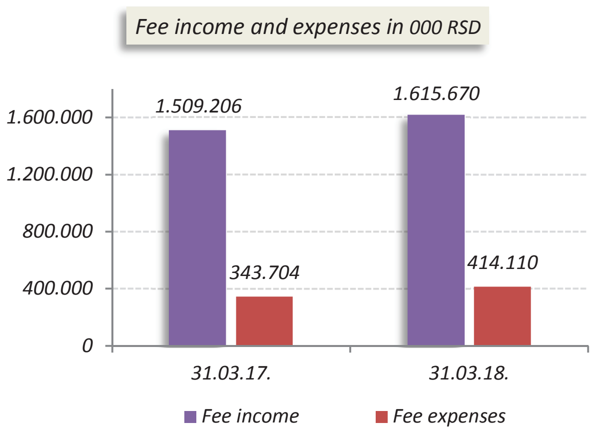
Within the interest income, the highest share is related to interest from retail transactions income (RSD 1,543.6 million or 47.8%). Within the interest expense, interests on retail deposits are also dominant (RSD 160.7 million or 69.1%), which is largely the result of interest expense for the collected foreign currency savings.



	2017	January	February	March
Average lending rate	3,7	3,6	3,5	3,6
Average debit rate	0,4	0,2	0,3	0,2
Average interest margin	3,3	3,4	3,2	3,4

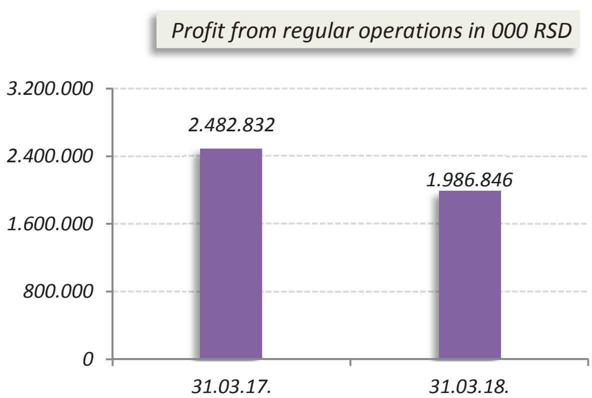
The average lending rate at the end of the first quarter of 2018 amounted to 3.6% and the average debit rate amounted to 0.2%, so the average interest margin of the Bank in the first quarter of 2018 amounted to 3.4%.

7.2. Fee income and expenses



During the first quarter of 2018, compared to the same period during previous year, fee and commission income for banking services increased by RSD 106.5 million or by 7.1%. At the same time, fee and commission expenses increased by 70.4 million RSD or by 20.5%.
Profit on fees and commissions for the first quarter of 2018 amounted to RSD 1.201.6 million and it is by RSD 36.1 million higher than during the same period of the previous year.

7.3. Profit from regular operations



During the period from January 1 to March 31, 2018, operating profit amounted to RSD 1,986.8 million, which is a decrease by RSD 496.0 million compared to the same period during the previous year, i.e. 20.0%.

During the first quarter of 2018, the realized operating profit of the Bank provided return on total capital of 12.5%, i.e. average return on assets in the amount of 2.2%.

7.4. Performance indicators prescribed by the Banking Law

NO.	DESCRIPTION	PRESCRIBED VALUE	MARCH 31, 2018	2017
1.	CAPITAL ADEQUACY RATIO (CAPITAL/RISK ASSETS); * REQUEST FOR THE COMBINED CAPITAL PROTECTIVE LAYER	MIN 8%+capital protective layer*	28,18%	27,89%
2.	INDICATOR OF INVESTMENTS IN NON-FINANCIAL SECTOR ENTITIES AND FIXED ASSETS	MAX 60%	14,54%	14,96%
3.	BANK'S LARGE EXPOSURE RATIO	MAX400%	23,17%	34,96%
4.	FX RISK RATIO	MAX 20%	5,01%	4,40%
5.	LIQUIDITY RATIO (monthly, on the last day of a month)	MIN 0,8	4,83	4,30

8. DESCRIPTION OF MAIN RISKS AND THREATS TO WHICH THE COMPANY IS EXPOSED

A detailed overview of the main risks and threats to which the Bank will be exposed in the upcoming period is given in the chapter "Risk management", Note to the financial statements.

9. ALL IMPORTANT DEALS WITH RELATED PERSONS

As of March 31,2018, 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 person (Cedens) and a larger number of natural persons, in accordance with the provisions of Article 2 of the Law on Banks regulating the term "persons related to the bank".

Total exposure to persons related to the Bank as of March 31, 2018 amounted to 513.8 million RSD, which is 1.0% of the capital of 52,012.9 million RSD (the maximum value of total placements to all persons related to the Bank under the Law on Banks is 25% of the capital).

The largest part of the exposure to persons related to the Bank as of March 31, 2018 is the amount of RSD 362.2 million, i.e. 0.7% of the Bank's capital and it is related to placements to the KomBankINVEST ad Belgrade company.

Pursuant to the Article 37 of the Law on Banks, the Bank did not grant loans to the persons related to the bank under more favourable conditions than the conditions granted to other persons not related to the bank.

More detailed overview of the Bank's relation to related persons is provided in the Item. "Related Persons", Note to financial statements.

10. DESCRIPTION OF ALL MAJOR EVENTS AFTER EXPIRY OF BUSINESS YEAR

At the end of 2017, and during the first quarter of 2018, we single out the following major business events: three meetings of the Shareholders Assembly of the Bank on January 29, 2018, March 14, 2018 and April 26, 2018. Shareholders Assembly meeting, which was held on January 29, 2018, adopted the following decisions:

1. Decision on dismissal and appointment of a member of the Board of Directors of Komercijalna Banka ad Belgrade.
2. Decision on dismissal and appointment of the Board of Directors president of Komercijalna Banka ad Belgrade.
3. Decision on adoption of the Strategy and business plan of Komercijalna banka ad Belgrade for 2018-2020.

The following decisions were adopted at the meeting of the Shareholders Assembly of the Bank, held on March 14, 2018:

1. Decision on dismissal and election of the Assembly President of Komercijalna Banka ad Belgrade.

The following decisions were adopted at the meeting of the Shareholders Assembly of the Bank, held on April 26, 2018:

1. Decision on Adoption of the Annual Report on the Operations of Komercijalna Banka ad Belgrade and Regular Financial Statements including External Auditor's Opinion for 2017
2. Decision on the adoption of the Annual Report on the Operations and Consolidated Financial Statements of Komercijalna Banka ad Belgrade Group including the External Auditor's Opinion for 2017.
3. Decision on allocation of profit from 2017 and unallocated profit from previous years.
4. Information related to Article 77 of the Law on Banks
5. Report in accordance with Article 78 of the Law on Banks
6. Decision on compulsory purchase of 6 SWIFT shares
7. Decision on determining remuneration to the President of the Bank's Assembly.

The description of the events after the balance sheet has been presented in item 6. Note to the financial statements for the first quarter of 2018.

11. BASIC INFORMATION ON THE IMPLEMENTATION OF 2018 BUSINESS PLAN

Implementation of the Strategy and Business Plan, for the first three months of 2018, took place within the following macroeconomic business conditions, of which we especially emphasize:

- GDP growth of 2.5% in the fourth quarter of 2017 compared to the same period of the previous year (Statistical Office of the Republic of Serbia[8]), the original plan for 2017 implied growth of 3.0%, which was then revised to 2.0% (Ministry of Finance of the Republic of Serbia),
- stable RSD exchange rate around the level of RSD 118 per EUR (the planned exchange rate of dinar against the euro at the end of the current year: 1 euro = 122.00 dinars (Komercijalna banka), and it was realized on March 31, 2018: 1 euro = 118, 38 dinars),
- The inflation rate (year-to-year rate, March 2018/March 2017) is 1.4% with a downward trend (in January 1.9%). It is currently below the target value for 2018 (3.0 +/-1,5%).

8 Quarterly gross domestic product in the Republic of Serbia, IV quarter 2017, Public notice, Statistical Office of the Republic of Serbia

In the course of 2017, according to the data of the Statistical Office of the Republic of Serbia, the year-to-year economic activity growth was 1.9%. As for the supply, the service sector has the most significant impact on total economic growth with a contribution of 1.1 pp. Industry and construction sector also made a positive contribution. Adverse meteorological conditions resulted in a negative contribution to agriculture of -0.6 pp. As for the consumers, the most significant contribution was in the field of personal consumption and investments, 1.3 pp and 1.1 pp. A positive contribution was also made by the state consumption[9].

The total foreign trade in the first two months of 2018 was 5.5 billion euros[10](goods worth EUR 2.4 billion were exported, while goods worth 3.1 billion EUR were imported) which represents an increase of 15.5% year-to-year.

Total export value of the 15 largest exporters in the first quarter of 2018 amounted to 1.1 billion euros.

NBS foreign currency reserves in February 2018 amounted to 9.79[11] billions of EUR and they have been increased by EUR 31.7 million compared to February 2017.

In the period January-February 2018, at the general government level, a fiscal surplus amounted to 20.4 billion RSD[12]. The state's public debt at the end of February 2018 amounted to 23.3 billion euros[13] i.e. 57,9% of gross domestic product.

In 2017, net inflow of foreign direct investment (FDI) reached the amount of 2.4 billion euros [14] which is a growth of 27.1%. In the first two months of 2018, the inflow of foreign direct investment (FDI) amounted to EUR 401 million [15] while the projection for the whole year amounted to 2.5 billion euros.

So far, the mitigation of NBS monetary policy since mid-2013 has led to declining interest rates on RSD corporate and retail loans. Interest rates on newly granted RSD loans in February 2018 amounted to 5.1% in the corporate sector and 10.6% in the retail sector[16]. Also, interest rates on existing loans registered a decline that affected more available funds for other consumption – for both retail and corporate sector.

Banks continued the trend of growth in terms of credit activity at the beginning of 2018 of 8.0% with a growth in retail sector amounting to 11.5%, and a growth of corporate loans amounted to 5.5%[17]. In the following part of the business year, further growth in lending activities of banks is expected in view of the growth of economic activity, competition among banks, mitigation of monetary policy and low interest rate in the euro zone.

11.1. Planned and achieved values of balance sheet for the first quarter of 2018

The total balance sheet assets of the Bank amounted to RSD 367,061.5 million at the end of the first quarter of 2018 and in relation to the planned value for the end of the year it is lower by RSD 20,913.9 million or by 5.4%.

Investments in securities as at 31.03.2018. is above the planned level for the entire year of 2018, primarily due to the lack of planned credit activity.

Loans to customers at the end of the first quarter of 2018 amounted to RSD 159,854.0 million. In order to achieve the planned level of given loans to clients, it is necessary for the Bank in the next three quarters to pledge funds in the amount of 33,471.0 million dinars, ie to achieve growth of 20.9%.

9 Current macroeconomic trends, April 2018, RS Ministry of Finance
10 Current macroeconomic trends, April 2018, RS Ministry of Finance
11 Current macroeconomic trends, April 2018, RS Ministry of Finance
12 Public notice, Ministry of Finance, April 11, 2018
13 Current macroeconomic trends, April 2018, RS Ministry of Finance
14 Macroeconomic trends in Serbia, February 2018, NBS
15 Macroeconomic trends in Serbia, April 2018, NBS
16 Macroeconomic trends in Serbia, April 2018, NBS
17 Macroeconomic trends in Serbia, April 2018, NBS

During the next three quarters of 2018, the growth of total deposits in the amount of RSD 21,994.8 million or 7.6% is required. The most significant growth is expected on retail deposits, an increase of 14,563.4 million dinars, or 5.9% and corporate deposits (expected increase of RSD 5,350.7 million, or 13.7%).

Other liabilities as at 31.03.2018. they are above the annual planned value by 18.4%, so in the forthcoming period the expected decrease on this position amounts to 2,221.1 million dinars.

The exchange rate of RSD against the euro, appreciation (0.1%), to some extent affected the limits of tolerance in regard to planned values.

Achieved and planned items of assets and liabilities in the balance sheet as of March 31, 2018 and their values:

(in mil RSD)

NO.	ITEM	Plan Dec 31, 2018	Achieved March 31, 2018	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	53.783	49.110	91,31
2.	Securities	110.287	127.547	115,65
3.	**Loans and deposits to customers (3.1.+3.2.+3.3.)**	**193.325**	**159.854**	82,69
3.1.	Companies	91.471	69.431	75,91
3.2.	Retail	93.398	83.705	89,62
3.3.	Banks and financial Institutions	8.456	6.717	79,44
4.	Other assets	30.581	30.551	99,90
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**387.975**	**367.062**	94,61
	LIABILITIES			
1.	**Deposits**	**310.407**	**288.412**	92,91
1.1.	Companies	44.360	39.010	87,94
1.2.	Retail	258.984	244.421	94,38
1.3.	Banks and financial Institutions	7.062	4.982	70,54
2.	**Other liabilities**	**12.100**	**14.321**	118,36
3.	**Total liabilities (1.+2.)**	**322.507**	**302.733**	93,87
4.	**Total capital**	**65.468**	**64.328**	98,26
5.	**TOTAL LIABILITIES (3.+4.)**	**387.975**	**367.062**	94,61

11.2. Planned and achieved values of profit and loss account for the period from January 1 to March 31, 2018

(In mil RSD)

NO.	ITEM	Plan Jan 1, - March 31, 2018	Achieved Jan 1, - March 31, 2018	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	3.244	3.331	102,7
1.2.	Interest expenses	272	-232	85,3
1.	**Net interest income (1.1.-1.2.)**	**2.971**	**3.098**	104,3
2.1.	Fee and commission income	1.853	1.616	87,2
2.2.	Fee and commission expenses	372	-414	111,4
2.	**Profit from fees and commissions (2.1. -2.2.)**	**1.482**	**1.202**	81,1
3.	Net exchange rate difference and change of value (currency clause)	0	-9	-
4.	Other net operating incomes and expenses	34	66	198,0
5.	Net income/expenses from indirect placement write-off and provisions	-108	231	-214,4
6.	Operational expenses	-2.745	-2.601	94,7
7.	**PROFIT FROM REGULAR OPERATIONS**	**1.633**	**1.987**	121,7

At the profit and loss account item, a significant deviation was recorded in net expenses from indirect placement write-off (net income amounting to RSD 231.0 million, while the planned amount of net expenses amounted to 107.8 million RSD).
Interest income - the achieved value is higher than the planned one by 127.1 million RSD.
Achieved profit in fees and commissions, during the first quarter of 2018, is lower than the planned one by 280.0 million RSD.
Operating expenses in the same period amounted to RSD 2,600.9 million and are lower than the planned ones by RSD 144.4 million as a result of the rationalization of operating expenses.

Due to realization of net income from impairment of financial assets and non-performing credit off-balance sheet items, as opposed to the planned expenditures, as well as the reduction of operating expenses in relation to the plan in the first quarter of 2018, the Bank achieved pre-tax profit in the amount of 1,986.8 million RSD, which is 21.7% above the planned value.

Signed on behalf of Komercijalna banka ad Beograd

Deputy director of the Control and Planning Division

Igor Krsmanović

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Director of Controlling and Planning Division

D. Romandić

Dragana Romandić

BALANCE SHEET

on 31.03.2018.

(in RSD thousand)

POSITION	ADP code	Amount: Current year ammount	Amount: Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	49.109.642	49.840.887
Pledged financial assets	0002	-	-
Receivables from derivatives	0003	-	-
Securities	0004	127.547.167	117.288.767
Loans and receivables due from banks and other financial institutions	0005	19.553.155	29.543.789
Loans and receivables due from customers	0006	153.558.162	153.897.367
Changes in fair value of items that are the subject of hedging	0007	-	-
Receivables from derivatives held for hedging	0008	-	-
Investments in associates and joint ventures	0009	-	-
Investments in subsidiaries	0010	2.611.859	2.611.859
Intangible assets	0011	427.924	460.263
Property, plant and equipment	0012	5.628.973	5.655.248
Investment property	0013	1.932.148	1.988.608
Current tax assets	0014	-	-
Deferred tax assets	0015	1.402.831	857.096
Non-current assets held for sale and discontinued operations	0016	241.148	241.148
Other assets	0017	5.048.508	6.798.506
TOTAL ASSETS (from 0001 to 0017)	0018	367.061.517	369.183.538
LIABILITIES			
LIABILITIES Liabilities from derivatives	0401	-	7.845
Deposits and other liabilities due to banks, other financial institutions and the central bank	0402	3.018.436	4.532.505
Deposits and other liabilities due to other customers	0403	292.104.921	292.471.640
Liabilities from derivatives held for hedging	0404	-	-
Changes in fair value of items that are the subject of hedging	0405	-	-
Liabilities from securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.499.490	1.368.051
Liabilities from non-current assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	588.619	-
Other liabilities	0412	5.521.838	7.543.442
TOTAL LIABILITIES (from 0401 to 0412)	0413	302.733.304	305.923.483
EQUITY			
EQUITY Equity	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	8.962.402	8.137.249
Loss	0417	-	-
Reserves	0418	15.331.261	15.088.256
Unrealized losses	0419	-	-
Non-controlling interest	0420	-	-
TOTAL EQUITY (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	64.328.213	63.260.055
TOTAL DEFICIENCY OF CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	0	0
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	367.061.517	369.183.538

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

INCOME STATEMENT

from 01.01.2018. to 31.03.2018

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
Interest income	1001	3 330 631	3 330 631	3 735 141	3 735 141
Interest expenses	1002	232 413	232 413	479 387	479 387
Net interest income (1001-1002)	1003	3 098 218	3 098 218	3 255 754	3 255 754
Net interest expenses (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1 615 670	1 615 670	1 509 206	1 509 206
Fee and commission expenses	1006	414 110	414 110	343 704	343 704
Net fee and commission income (1005 - 1006)	1007	1 201 560	1 201 560	1 165 502	1 165 502
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	44 982	44 982	21 018	21 018
Net losses from changes in fair value of financial instruments	1010	-	-	-	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains based on derecognition of financial instruments valued at fair value	1013	37 394	37 394	50 718	50 718
Net losses based on derecognition of financial instruments valued at fair value	1014	-	-	-	-
Net gains based on hedging	1015	-	-	-	-
Net losses based on hedging	1016	-	-	-	-
Net income from foreign exchange differences and the effects of contracted foreign currency clause	1017	-	-	-	-
Net expenses from foreign exchange differences and the effects of contracted foreign currency clause	1018	9 421	9 421	215	215
Net income from reversal of impairment of financial assets that are not valued at fair value through profit and loss	1019	231 041	231 041	72 775	72 775
Net impairment losses of financial assets that are not valued at fair value through profit and loss	1020	-	-	-	-
Net gains based on derecognition of financial instruments valued at amortised cost	1021	-	-	-	-
Net losses based on derecognition of financial instruments valued at amortised cost	1022	-	-	-	-
Net gains based on derecognition of investments in associates and joint ventures	1023	-	-	306	306
Net losses based on derecognition of investments in associates and joint ventures	1024	-	-	-	-
Other operating income	1025	38 451	38 451	43 302	43 302
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	4 642 225	4 642 225	4 609 160	4 609 160
NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Costs of salaries, allowances and other personnel expenses	1028	1 103 867	1 103 867	1 098 357	1 098 357
Depreciation costs	1029	145 205	145 205	147 263	147 263
Other income	1030	72 670	72 670	582 355	582 355
Other expenses	1031	1 478 977	1 478 977	1 463 063	1 463 063
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	1 986 846	1 986 846	2 482 832	2 482 832
LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Tax on profit	1034	-	-	-	-
Deffered tax income for the period	1035	-	-	-	-
Deffered tax expense for the period	1036	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	1 986 846	1 986 846	2 482 832	2 482 832
LOSS FROM CONTINUING OPERATIONS AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
NET PROFIT OF DISCONTINUED OPERATIONS	1039	-	-	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1040	-	-	-	-
NET PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	1 986 846	1 986 846	2 482 832	2 482 832
NET LOSS (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit attributable to parent legal entity	1043	-	-	-	-
Profit attributable to non-controlling interest stakeholders	1044	-	-	-	-
Loss attributable to parent legal entity	1045	-	-	-	-
Loss attributable to non-controlling interest stakeholders	1046	-	-	-	-
Earnings per share					
Basic earnings per share (in RSD, rounded)	1047	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1048	-	-	-	-

* Coloumn 3 for 1. quartal 01.01.-31.03., 2. quartal 01.04.-30.06., 3. quartal 01.07.-30.09.

** Coloumn 4 for 1. quartal 01.01.-31.03., 2. quartal 01.01.-30.06., 3. quartal 01.01.-30.09.

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2018. to 31.03.2018.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3	4	5	6
PROFIT FOR THE PERIOD	2001	1.986.846	1.986.846	2.482.832	2.482.832
LOSS FOR THE PERIOD	2002	-		-	-
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 the changes in the value of equity instruments that are valued at fair value through the other result	2007	36.593	36.593	99.074	99.074
Negative effects of the changes in the value of equity instruments that are valued at fair value through the other result	2008	-	-	-	-
Unrealized gains arising from risk-protection equity instruments that are valued at fair value through other result	2009	-	-	-	-
Unrealized losses arising from risk-protection equity instruments that are valued at fair value through other result	2010	-	-	-	-
Unrealized gains on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2011	-	-	-	-
Unrealized losses on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2014	-	-	-	-
Components of other result that can be reclassified to profit or loss: Positive effects of the changes in the value of debt instruments that are valued at fair value through other result	2015	50.291	50.291	-	-
Negative effects of the changes in the value of debt instruments that are valued at fair value through other result	2016	12.942	12.942	175.384	175.384
Gains from hedging instruments in a cash flow hedge	2017	-	-	-	-
Losses from hedging instruments in a cash flow hedge	2018	-	-	-	-
Unrealized gains arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign operations	2019	-	-	-	-
Unrealized losses arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign operations	2020	-	-	-	-
Unrealized gains based on instruments designed to protect against the risks of net investment in foreign operations	2021	-	-	-	-
Unrealized losses based on instruments designed to protect against the risks of net investment in foreign operations	2022	-	-	-	-
Unrealized gains on other instruments designed to protect against risks	2023	-	-	-	-
Unrealized losses on other instruments designed to protect against risks	2024	-	-	-	-
Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2026	-	-	-	-
Tax-related profit that pertains to other result for the period	2027	-	-	-	-
Tax-related loss that pertains to other result for the period	2028	11.091	11.091	-	-
Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	**62.851**	**62.851**	-	-
Total negative other result for the period 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	-	-	**76.310**	**76.310**
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**2.049.697**	**2.049.697**	**2.406.522**	**2.406.522**
TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive result for the period that pertains to parent entity	2033	-	-	-	-
Total positive result for the period that pertains to owners without control rights	2034	-	-	-	-
Total negative result for the period that pertains to parent entity	2035	-	-	-	-
Total negative result for the period that pertains to owners without control rights	2036	-	-	-	-

Coloumn 3 for 1 quartal 01.01 - 31.03, 2 quartal 01.04 - 30.06, 3 quartal 01.07 - 30.09
Coloumn 4 for 1 quartal 01.01 - 31.03, 2 quartal 01.01 - 30.06, 3 quartal 01.01 - 30.09

CASH FLOW STATEMENT

from 01.01.2018 to 31.03.2018

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2018.	Amount 01.01-31.03.2017
	1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3001	5.984.759	6.859.926
1.	Inflow from Interest	3002	4.112.855	4.680.608
2.	Inflow from fees	3003	1.643.617	1.530.202
3.	Inflow from other operating activities	3004	226.610	647.366
4.	Inflow from dividends and profit sharing	3005	1.677	1.750
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3006	2.785.341	3.514.356
5.	Outflow from interest	3007	248.965	465.398
6.	Outflow from fees	3008	414.692	345.108
7.	Outflow from gross salaries, allowances and other personnel expenses	3009	730.759	1.112.538
8.	Outflow from taxes, contributions and other levies charged against income	3010	165.575	193.411
9.	Outflow from other operating expenses	3011	1.225.350	1.397.901
III.	**Net cash inflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	3.199.418	3.345.570
IV.	**Net cash outflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	-	-
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	13.150.391	19.002.256
10.	Decrease in loans and other receivables from banks and other financial institutions, central bank and customers	3015	13.150.391	16.633.755
11.	Decrease in receivables from securities and other financial assets that are not intended for investment	3016	-	2.368.501
12.	Decrease in receivables from derivatives held for hedging and change in fair value of items that are the subject to protection against risk	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial institutions, central banks and customers	3018	-	-
14.	Increase of other financial liabilities	3019	-	-
15.	Increase in liabilities from derivatives intended for protection against risk and change in fair value of items that are subject of hedging	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	3.569.480	20.451.817
16.	Increase in loans and other receivables from banks and other financial institutions, central bank and customers	3022	-	-
17.	Increase in receivables from securities and other financial assets that are not intended for investment	3023	2.106.332	-
18.	Increase in receivables from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial institutions, central bank and customers	3025	1.456.083	20.451.817
20.	Decrease of other financial liabilities	3026	7.065	-
21.	Decrease in liabilities from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	12.780.329	1.896.009
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	12.780.329	1.896.009
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
Б.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investment activities (from 3035 to 3039)**	3034	17.049.758	15.805.556
1.	Inflow from long-term investment in securities	3035	17.049.758	15.686.615
2.	Inflow from sale of investments in subsidiaries and associates and joint ventures	3036	-	-
3.	Inflow from sale of intangible assets, property, plant and equipment	3037	-	59
4.	Inflow from sale of investment property	3038	-	118.882
5.	Other inflow from investment activities	3039	-	-
II.	**Cash outflow from investment activities (from 3041 to 3045)**	3040	26.342.315	16.345.975
6.	Outflow from investment in long-term securities	3041	26.186.916	16.287.994
7.	Outflow for purchase of investments in subsidiaries and associates and joint ventures	3042	-	-
8.	Outflow for purchase of intangible assets, property, plant and equipment	3043	155.399	57.981
9.	Outflow for purchase of investment property	3044	-	-
10.	Other outflow from investment activities	3045	-	-
III.	**Net cash inflow from investment activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investment activities (3040 - 3034)**	3047	9.292.557	540.419
B.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	23.841.927	25.953.821
1.	Inflow from capital increase	3049	-	-
2.	Inflow from subordinated liabilities	3050	-	-
3.	Inflow from borrowings	3051	23.841.927	25.953.821
4.	Inflow from issued securities	3052	-	-
5.	Inflow from sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	25.319.443	27.117.813
7.	Outflow from purchase of own shares	3056	-	-
8.	Outflow from subordinated liabilities	3057	-	-
9.	Outflow from borrowings	3058	25.319.443	27.117.813
10.	Outflow from issued securities	3059	-	-
11.	Other outflow from financing activities	3060	-	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	1.477.516	1.163.992
Г.	TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3063	60.026.835	67.621.559
Д.	TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	58.016.579	67.429.961
Ђ.	NET INCREASE IN CASH (3063 - 3064)	3065	2.010.256	191.598
Е.	NET DECREASE IN CASH (3064 - 3063)	3066	-	-
Ж.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	26.314.898	34.945.610
З.	FOREIGN EXCHANGE GAINS	3068	-	56.128
И.	FOREIGN EXCHANGE LOSSES	3069	80.996	-
J.	CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3070	28.244.158	35.193.336

STATEMENT OF CHANGES IN EQUITY

from 01.01.2018 to 31.03.2018

(in RSD thousand)

ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	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	Minority interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as of January 1st of preceding year	4001	17 191 466	4033		4065	22 843 084	4097	18 791 828	4129	4 316 496	4147	5 087	4165	349 698	4204	8 063 183	4242		4286	55 424 302	4292	
Effects of first aplication of new IFRS – increase	4002		4034		4066		4098		4130		4148		4166		4205		4243					
Effects of first aplication of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4206		4244					
Correction of material misstatement and changes to accounting policies in preceding year – increase	4004		4036		4068		4100		4132		4150		4168		4207		4245					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4005		4037		4069		4101		4133		4151		4169		4208		4246					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3+4-5)	4006	17 191 466	4038	0	4070	22 843 084	4102	18 791 828	4134	4 316 496	4152	5 087	4170	349 698	4209	8 063 183	4247		4287	55 424 302	4293	
Total positive other comprehensive result for the period									4135		4153	1 549					4248					
Total negative other comprehensive result for the period									4136	286 237	4154						4249					
Profit for the year													4171	8 117 368			4250					
Loss for the year															4210		4251					
Transfer from reserves to result due to release of reserves – increase													4172		4211		4252					
Transfer from reserves to result due to release of reserves - decrease													4173		4212		4253					
Transactions with owners, recorded directly in equity – increase	4007		4039		4071		4103						4174		4213		4254					
Transactions with owners, recorded directly in equity – decrease	4008		4040		4072		4104						4175		4214		4255					
Profit distribution – increase	4009		4041		4073		4105						4176		4215		4256					
Profit distribution, and/or loss coverage – decrease	4010		4042		4074		4106	7 730 293					4177	332 890	4216	8 063 183	4257					
Dividend payments	4011		4043		4075		4107						4178	16 808	4217		4258					
Other – increase	4012		4044		4076		4108						4179	19 881	4218		4259					
Other – decrease	4013		4045		4077		4109						4180		4219		4260					
Total transactions with owners (number 13-14+15-16-17+18-19) ≥ 0	4014	0	4046	0	4078	0	4110	0					4181	0	4220	0	4261					
Total transactions with owners (number 13-14+15-16-17+18-19) < 0	4015	0	4047	0	4079	0	4111	7 730 293					4182	329 817	4221	8 063 183	4262					
Balance as of December 31st of preceding year (number 6+7-8+9-10+11-12+20-21 for columns from 2,3,4,5,6,8,9), for column 7 (number 6+8-7)	4016	17 191 466	4048	0	4080	22 843 084	4112	11 061 535	4137	4 030 259	4155	3 538	4183	8 137 249	4222	0	4263		4288	63 260 055	4294	
Opening balance as of January 1st of the current year	4017	17 191 466	4049		4081	22 843 084	4113	11 061 535	4138	4 030 259	4156	3 538	4184	8 137 249	4223	0	4264		4289	63 260 055	4295	
Effects of first aplication of new IFRS – increase	4018		4050		4082		4114		4139	176 617	4157		4185		4224		4265					
Effects of first aplication of new IFRS – decrease	4019		4051		4083		4115		4140		4158	3 538	4186	1 161 693	4225		4266					
Correction of material misstatement and changes to accounting policies in preceding year – increase	4020		4052		4084		4116		4141		4159		4187		4226		4267					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4021		4053		4085		4117		4142		4160		4188		4227		4268					
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4022	17 191 466	4054	0	4086	22 843 084	4118	11 061 535	4143	4 206 876	4161	0	4189	6 975 556	4228	0	4269		4290	62 278 517	4296	
Total positive other comprehensive result for the period									4144	62 850	4162						4270					
Total negative other comprehensive result for the period									4145		4163						4271					
Profit for the year													4190	1 986 846			4272					
Loss for the year															4229		4273					
Transfer from reserves to result due to release of reserves – increase													4191		4230		4274					
Transfer from reserves to result due to release of reserves – decrease													4192		4231		4275					
Transactions with owners, recorded directly in equity – increase	4023		4055		4087		4119						4193		4232		4276					
Transactions with owners, recorded directly in equity – decrease	4024		4056		4088		4120						4194		4233		4277					
Profit distribution – increase	4025		4057		4089		4121						4195		4234		4278					
Profit distribution, and/or loss coverage – decrease	4026		4058		4090		4122						4196		4235		4279					
Dividend payments	4027		4059		4091		4123						4197		4236		4280					
Other – increase	4028		4060		4092		4124						4198		4237		4281					
Other – decrease	4029		4061		4093		4125						4199		4238		4282					
Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	0					4200	0	4239	0	4283					
Total transactions with owners (number 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0					4201	0	4240	0	4284					
Balance as of March 31st 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+26-25)	4032	17 191 466	4064	0	4096	22 843 084	4128	11 061 535	4146	4 269 726	4164	0	4202	8 962 402	4241	0	4285		4291	64 328 213	4297	

КОМЕРЦИЈАЛНА БАНКА
АД Београд

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER 2018

Belgrade, May 2018

1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna banka AD Beograd (hereinafter referred to as "Bank") was incorporated on 1st December 1970, and transformed into a joint-stock company on 6th May 1992.

As of 31st March 2018, 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 31st March 2018, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centers, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of 31st March 2018, the Bank has 2,821 employees, and on 31st December 2017, the number of employees was 2,806. 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 the 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 periodic financial statements for the period January – March 2018, the implementation of the IFRS 9 standard resulted in amendments to the NBS legislation that obliged banks to apply new forms of financial statements with the starting date of 1st January 2018.

Banks were obliged to adjust data from the preceding column of the year to the new structure, without making changes to the financial data.

When creating quarterly financial statements for 2018, the Bank applied new accounting policies to the part referring to financial instruments and possibility of allocation of credit losses for all accounting periods which record benefits from assets, which is a prerequisite for determining an accurate result.

The Bank prepares and presents regular financial statements for the business year ending on 31st December of the current year as well as reports in a shorter period for its needs, at the request of the Bank's competent body or competent state authorities.

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. Rules of assessment of financial instruments

In terms of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, except for owner instruments and derivatives, which are based on the assessment of the business model for managing specific financial assets and agreed characteristics of cash flows of financial instruments.

2.2.1. Financial assets

The Bank is making an assessment of the objectives of business models for managing financial assets at the portfolio level, since such an assessment best presents the manner of managing business activities and the manner of reporting to the management.

The classification of financial assets is based on the application of an appropriate business model for managing financial assets and fulfilment of the test of characteristics of agreed cash flows.

The business model determines whether cash flows result from the collection of agreed cash flows, sale of financial assets, or both. The business model for the classification of financial assets is determined at an appropriate level of aggregation.

The fulfilment of the test of characteristics of agreed cash flows implies that cash flows consist exclusively of the payment of the principal and the interest rate for the remaining principal (SPPI criterion).

Financial assets may be classified into the following categories:

a) Financial assets calculated at amortised costs (AC)
b) Financial assets valued at fair value through profit and loss (FVTPL)
c) Financial assets valued at fair value through other comprehensive income, with recognition through the income statement – "recycling" (FVOCI)
d) Financial assets valued at fair value through other comprehensive income, without recognition through the income statement (FVOCI)

In accordance with the classification of the assets referred to in the previous paragraph, the Bank categorises all placements from its portfolio that refer to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market, and which the Bank does not intend to sell in a short period of time,
- Securities that are valued at fair value through profit and loss, which represent instruments obtained for the purpose of generating profit from the fluctuation of prices and margin,
- Securities which include debt securities and owner securities (equity instruments), and
- Financial derivatives that include forward and swap transactions.

2.2.2. Financial liabilities

Financial liabilities is any contracted liability of the Bank:

- To deliver cash or another financial asset to another legal entity,
- To exchange financial instruments with another legal entity under conditions that are potentially unfavourable.

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 31st March 2018, with comparative data for 2017, 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 101/2017), apples from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	31.03.2018		31.12.2017	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	49,109,642	13.38	49,840,887	13.50
Securities	127,547,167	34.75	117,288,767	31.77
Loans and receivables due from banks and other financial organizations	19,553,155	5.33	29,543,789	8.00
Loans and receivables from customers	153,558,162	41.83	153,897,367	41.69
Investments in subsidiaries	2,611,859	0.71	2,611,859	0.71
Intangible assets	427,924	0.12	460,263	0.12
Property, plant and equipment	5,628,973	1.53	5,655,248	1.53
Investment property	1,932,148	0.53	1,988,608	0.54
Current tax assets	-	-	-	-
Deferred tax assets	1,402,831	0.38	857,096	0.23
Non-current assets held for sale and assets from discontinued operations	241,148	0.06	241,148	0.07
Other assets	5,048,508	1.38	6,798,506	1.84
TOTAL ASSETS	**367,061,517**	**100.00**	**369,183,538**	**100.00**

In thousand RSD

	31.03.2018		31.12.2017	
LIABILITIES	Amount	%	Amount	%
Liabilities resulting from derivatives	-	-	7,845	-
Deposits and other fin. liabilities due to banks, other fin. organizations and central bank	3,018,436	0.82	4,532,505	1.23
Deposits and other fin. liabilities due to other customers	292,104,921	79.58	292,471,640	79.22
Provisions	1,499,490	0.41	1,368,051	0.37
Deferred tax liabilities	588,619	0.16	-	-
Other liabilities	5,521,838	1.50	7,543,442	2.04
Equity	64,328,213	17.53	63,260,055	17.14
TOTAL LIABILITIES	**367,061,517**	**100.00**	**369,183,538**	**100.00**

INCOME STATEMENT

Income and expense structure and their share in the corresponding 2018 Income Statement categories are as follows:

In thousand RSD

	31.03.2018	31.03.2017
INCOME	Total	Total
Interest income	3,330,631	3,735,141
Fee and commission income	1,615,670	1,509,206
Net gains from the changes of fair value of financial instruments	44,982	21,018
Net gain from the cessation of recognition of financial instruments valued at fair value		
Net income from reduction of impairments of financial assets not valued at fair value through profit and loss	37,394	50,718
Net gains on investments in subsidiaries and joint ventures	231,041	72,775
Other operating income		
Other income		
	-	306
	38,451	43,302
	72,670	582,355

EXPENSES	Total	Total
Interest expense	232,413	479,387
Fee and commission expense	414,110	343,704
Net expense from exchange rate differentials and effects of agreed currency clause	9,421	215
Cost of salaries, allowances and other personnel expenses	1,103,867	1,098,357
Depreciation cost	145,205	147,263
Other expenses	1,478,977	1,463,063

Profit/loss before tax	**1,986,846**	**2,482,832**
Profit from deferred tax	**-**	**-**
Result for the period (profit/loss)	**1,986,846**	**2,482,832**

CASH FLOW STATEMENT

In thousand RSD

	31.03.2018	31.03.2017
Item	Total	Total
Cash inflows from operating activities	**5,984,759**	**6,859,926**
Inflow from interest	4,112,855	4,680,608
Inflow from fees	1,643,617	1,530,202
Inflow from other operating activities	226,610	647,366
Inflow from dividends and share in profit	1,677	1,750
Cash outflows from operating activities	**2,785,341**	**3,514,356**
Interest payments	248,965	465,398
Fee payments	414,692	345,108
Payments for gross salaries, allowances and other personnel expenses	730,759	1,112,538
Taxes, contributions and other duties charged to income	165,575	193,411
Payments for other operating expenses	1,225,350	1,397,901
Net cash inflow from operating activities before increase or decrease financial assets and financial liabilities	**3,199,418**	**3,345,570**
Decrease in financial assets and increase in financial liabilities	**13,150,391**	**19,002,256**
Decrease in loans and other receivables from banks and other financial organizations, the central bank and customers	13,150,391	16,633,755
Decrease in receivables from securities and other financial assets not held for investments	-	2,368,501
Increase in lending and decrease in received deposits and other liabilities	**3,569,480**	**20,451,817**
Increase in loans and other receivables from banks and other financial organizations, the central bank and customers	-	-
Increase in receivables from securities and other financial assets not held for investments	2,106,332	-
Decrease in deposits and other financial liabilities to banks and other financial organizations, central banks and customers		
Decrease in other financial liabilities	1,456,083	20,451,817
	7,065	-

Item	31.03.2018 Total	31.03.2017 Total
Net inflow of cash from operating activities before profit tax	**12,780,329**	**1,896,009**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	-	-
Paid dividends	-	-
Net inflow of cash from operating activities	**12,780,329**	**1,896,009**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**17,049,758**	**15,805,556**
Inflow from investment securities	17,049,758	15,686,615
Inflow from sales of intangible assets, property, plants and equipment	-	59
Inflow from sale of investment property	-	118,882
Cash outflow from investment activities	**26,342,315**	**16,345,975**
Outflow from investing in investment securities	26,186,916	16,287,994
Outflow for purchase of intangible assets, property, plants and equipment	155,399	57,981
Outflow for purchase of investment property	-	-
Net inflow of cash from investment activities	**-**	**-**
Net outflow of cash from investment activities	**9,292,557**	**540,419**
Cash inflow from financing activity	**23,841,927**	**25,953,821**
Inflow from borrowings	23,841,927	25,953,821
Cash outflow from financing activity	**25,319,443**	**27,117,813**
Outflow from borrowings	25,319,443	27,117,813
Net outflow of cash from financing activity	**1,477,516**	**1,163,992**
Total cash inflow	**60,026,835**	**67,621,559**
Total cash outflow	**58,016,579**	**67,429,961**
Net increase in cash	**2,010,256**	**191,598**
Net decrease in cash	**-**	**-**
Cash and cash equivalents at the start of the year	**26,314,898**	**34,945,610**
Exchange rate gains	-	56,128
Exchange rate loss	80,996	-
End of period cash and cash equivalents	**28,244,158**	**35,193,336**

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 – March 2018 amounts to RSD 3,098,218 thousand and is lower by RSD 157,536 thousand, or 4.84% compared to the same quarter last year, as a result of a decrease in interest rates, decrease in corporate portfolio and refinancing of NPL clients by other banks during 2018 which resulted in a change in the structure of portfolio towards better quality loans. Net interest income was higher than that specified in the Business Plan for the first three months 2018 i.e. RSD 127,102 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 – March 2018 amounts to RSD 1,201,560 thousand and is higher compared to the same period 2017 by 3.09%, or RSD 36,058 thousand.

3.3. Net income from the change in fair value of financial instruments and net income from the cessation of recognition of financial instruments valued at fair value

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

In the observed period 2018, the Bank stated the net loss from the change in fair value of financial assets held for trade in the amount of RSD 44,982 thousand (tax payers of the Republic of Serbia and investment units of KomBank Novčani Fond).

Unrealized gains and losses based on the change of value of debt and owner securities valued at fair value through other comprehensive income are recognized within the revaluation reserves included in the Bank's capital. At the time of cessation of recognition of debt securities (sale or permanent decrease in the value), corresponding amounts of the previously formed revaluation reserves are shown in the Income Statement as gains or losses based on the cessation of recognition, whereas I case of cessation of recognition of owner securities, relevant amounts of previously formed revaluation reserves permanently remain within the capital.

Cessation of the recognition of financial instruments valued at fair value resulted in the net income from sale in the amount of RSD 37,394 thousand (RS bonds and foreign entities' bonds).

Gains/losses based on the agreed currency clause and changes in the exchange rate of securities, and interest income from securities, except for securities at fair value through the Income Statement, are presented in the 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 FX differences arising from the agreed currency clause.

Net expenses from exchange rate differentials in the reporting period January – March 2018 amount to RSD 9,421 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. Net income/expenses from a decrease of the impairment of financial assets not valued at fair value through profit and loss

Net income/expenses refer to the financial assets classified by the Bank into the following categories: loans and receivables valued at depreciated value, and securities valued at fair value through other comprehensive income.

Depreciated value of a financial asset or liability is the amount according to which assets or liabilities are initially valued, deduced by the payment of the principal, and increased or deduced by accumulated depreciation using the method of effective interest rate for the spread between the initial value and nominal value on the date of maturity of the instrument, deduced by impairment.

In case of impairment identification and valuation, the Bank applies the concept of expected credit loss. The Bank calculates and approves value adjustment for all financial instruments valued at the depreciated value, as well as for financial instruments valued at fair value through other comprehensive income.

The method of identification, calculation and approval of value adjustment is defined by the Methodology for the calculation of value adjustment in accordance with IFRS 9.

Loans and other receivables are presented in the amount deduced by the group or individual calculation of impairment. Individual and group provisions are deduced from the bookkeeping value of loans identified as impaired in order to deduce their value to their reimbursable value.

If impairment is reduced in the following period, and reduction may be objectively ascribed to the event that occurred after the recognition of loss due to impairment (such as improvement of the debtor's credit rating), then value adjustment for impairment is terminated for the previously recognised loss due to impairment.

Net income from deduction of the impairment of financial assets were recorded in the period January – March 2018, as well as credit risk-based off-balance sheet items not valued at fair value through profit and loss in the amount of RSD 231,041 thousand, and in the same period in 2017, the net income on this basis was RSD 72,775 thousand.

3.6. Other Operating Income

In the overall other operating income amounting to RSD 38,451 thousand, income from business operations account for the most important share of 95.64% (same period last year 95.96%), which mainly refer to the income from the lease of real estate in the amount of RSD 17,990 thousand. Other operating income are generated from the reimbursement of costs based on: mobile phones, court and utility costs, income from the use of official vehicles for private purposes, and income from long-term insurance.

Income from dividends is part of the item: Other Income. Dividends received from investment in shares of other legal entities in the amount of RSD 1,677 thousand are shown as income from dividends at the moment of their collection. Out of total amount of received dividends, RSD 1,386 thousand relates to a dividend received from VISA Inc. USA, while RSD 291 thousand to a dividend received from MasterCard USA.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 1,103,867 thousand are higher by RSD 5,510 thousand or 0.50 % compared to the same period last year. Net increase is primarily a result of the increase of an average salary in the Republic of Serbia, which is the basis for calculating the meal allowance, vacation allowance and contributions compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 145,205 thousand are lower relative to the period January – March 2017 by RSD 2,058 thousand or 1.40%.

3.9. Other income

Out of the total other income in the amount of RSD 72,670 thousand, the most significant share of 96.56% have other income (the same period in the previous year 98.91%), which mostly refers to the income from the default interest and court costs of a won dispute based on the final judgement in the amount of RSD 62,509 thousand. Excluding the effect of the income from the default interest of a won court dispute, the percentage of share of other income in total other income is 10.54%. Out of the total other income, other significant items refer to the income from the collection of interests from previous years from corporate, entrepreneurs and retail in the total amount of RSD 6,366 thousand, which makes 8.76% of other income.

3.10. Other Expenses

Other expenses are stated in the amount of RSD 1,478,977 thousand and they have been decreased in comparison to the same period last year by RSD 15,914 thousand, or 15,914 %. Other expenses consist of:

a) operating expenses amounting to RSD 1,351,825 thousand,
b) cost of provisions for court disputes amounting to RSD 69,383 thousand, and
c) other expenses amounting to RSD 57,769 thousand.

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

a) Operating expenses in the total amount of RSD 1,351,825 thousand, as follows:

- intangible costs totalling RSD 593,889 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 398,853 thousand, property security expenses in the amount of RSD 56,986 thousand, lawyer's fee in the amount of RSD 28,304 thousand, and

- cost of production services amounting to RSD 443,675 thousand;

Operating expenses of the current period are lower compared to the same period last year by RSD 51,863 thousand.

b) Provision expenses for court liabilities in the amount of RSD 69,383 thousand refer to increased provisions for court liabilities of the Bank in 2018, and

c) Other expenses in the amount of RSD 57,769 thousand.

Out of total amount of other expenses for the period January – March 2018, *totalling RSD 57,769 thousand* the largest part relates to the costs of insurance policy of borrowers' receivables in the amount of RSD 36,998 thousand. Other expenses on such basis in Q1 2017 amounted to RSD 24,012 thousand.

Compared to the same period 2017, other expenses are higher by RSD 15,818 thousand, primarily as a result of the increase in costs of insurance policy of borrowers' receivables (increase in RSD 12,986 thousand).

BALANCE SHEET

Balance sheet total as of 31st March 2018 amounts to RSD 367,061,517 thousand, which in comparison to 31st December 2017, represents a decrease by RSD 2,122,021 thousand, or 0.57%.

ASSETS

In total Bank's assets loans and deposits to customers and banks have a dominant share of 47.16% (2017: 49.69%), securities with a share of 34.75% (2017: 31.77%), cash and funds at the central bank with a share of 13.38% (2017: 13.50%), property, plant and equipment with a share of 1.53% (2017: 1.53%); other assets with a share of 1.38% (2017: 1.84%), and investment in subsidiaries of 0.71% (2017: 0.71%).

3.11. Cash and Funds with the Central Bank

Cash and assets with the central bank as of 31st March 2018 amount to RSD 49,109,642 thousand, and account for 13.38% of the Bank's total assets (13.50 % as of 31st December 2017). Compared to 31st December 2017the position has decreased by RSD 731,245 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.

3.12. Securities

Investment in securities in the amount of RSD 127,547,167 thousand make up a percentage of share of 34.75% of total assets (2017: 31.77%) and consist of securities valued at fair value through profit and loss in the amount of RSD 7,440,763 thousand and securities valued at fair value through other comprehensive income in the amount of RSD 120,106,404 thousand.
An increase in the investment in securities in RSD 10,258,400 thousand, i.e. 8.75%, was made compared to 2017. Out of the total increase in RSD 10,258,400 thousand, securities valued at fair value through profit and loss in the amount of RSD 2,171,054 thousand, whereas an increase in securities valued at fair value through other comprehensive income amounts to RSD 8,087,346 thousand.

The largest share in the securities structure in RSD are RS bonds (99.19%), followed by investment units of KomBank Novčani Fond, Beograd (0.81%). Regarding foreign currency securities, these are made up of RS bonds (97.84%) and bonds by foreign banks and countries in the amount of (2.16%).

3.13. 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 placements, less repaid principal and less the impairment allowance based on the assessment of specific identified risks for certain placements 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 IFRS 9.

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 revalorized in accordance with the specific agreement for each loan. The difference between the nominal value of outstanding principal and the revalorized 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 31st March 2018, loans and receivables from banks and other financial organizations amount to RSD 19,553,155 thousand with a percentage of share of 5.33% of total assets (2017: 29,543,789 thousand) and are lower by RSD 9,990,634 thousand. Decrease compared to 31st December 2017 is mostly a result of decrease in REPO transactions by RSD 11,001,000 thousand, on one side, and an increase in balance in regular FX current accounts abroad by RSD 2,639,175 on the other.

Loans and receivables from customers as of 31st March 2018 amount to RSD 153,558,162 thousand with a percentage of share of 41.83% of total assets (2017: 153,897,367 thousand) and as such have predominant share in asset structure. Total loans to customers are lower by 0.22% compared to 2017 (i.e. RSD 339,205 thousand), which is for the most part a result of the application of the new – more restrictive methodology of the valuation of placements in accordance with IFRS 9.

In the period January – March 2018, in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank performed a permanent write-off by transferring balance-sheet assets to the off-balance-sheet records in the amount of RSD 494,900 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.14. Investment in Subsidiaries

Investments in subsidiaries are RSD 2,611,859 thousand and account for 0.71% 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.

Investments in subsidiaries as of 31st March 2018 amount to 5.480.888 **dinars** (gross amount excluding impairments) individual per members:

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

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, without changes in the balance sheet and income statement in 2017 and 2018.

3.15. 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 4.01% of total assets, of which the highest percentage relates to real estate, plant and equipment in the amount of 1.53%, other assets in the amount of 1.38% and investment property in the amount of 0.53%.

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 31st March 2018 amount to RSD 1,103,647 thousand valued at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,063,059 thousand and these are shares in the companies Master and Visa International.

Deferred tax assets in the amount of 1,402,831 thousand dinars mostly relate to the formed deferred tax assets from realized tax losses in the previous years. Compared to 31st December 2017 (when deferred tax assets are netted with deferred tax liabilities during the business year), deferred tax assets and deferred tax liabilities are presented in separate balance sheet items. As of 31st March 2018, deferred tax liabilities amount to RSD 1,402,831 thousand, and deferred tax liabilities amount to RSD 588,619 thousand, presented as liabilities in the balance sheet.

Deferred tax assets as of 31st March 2018 largely comprise deferred tax assets based on transferred tax losses in the amount of RSD 867,146 thousand. These deferred tax assets were entered in 2017 in the amount of RSD 1,235,813 thousand, based on the calculation of planned profit from the business plan for the period 2017 - 2019, and partly they are used for the covering of income tax for 2017 in the amount of RSD 368,667 thousand. A prescribed deadline for the use of transferred tax losses is 5 years. An important item in deferred tax assets in the amount of RSD 265,532 thousand are tax assets for temporary non-recognised expenses from property impairment.

LIABILITIES

In the period January – March 2018 the structure of liabilities was still dominated by deposits and other financial liabilities to banks and customers with a total percentage of 80.40% (2017: 80.45%) of total liabilities. Share of capital in total liabilities equals 17.53% (2017: 17.14%).

Other items account for 2.07% of total liabilities, with the largest part referring to other liabilities with a percentage of 1.50%.

3.16. Deposits and Other Financial 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 financial liabilities to customers account for the largest share in the structure of liabilities in the amount of RSD 292,104,921 thousand thus accounting for 79.58% of total liabilities (2017: 79.22%), followed by deposits and other financial liabilities to banks, other financial organizations and the central bank in the amount of RSD 3,018,436 thousand with a share of 0.82% (2017: 1.23%).

Total deposits to customers, banks and other financial organisations and the central bank amount to RSD 295,123,357 thousand and are lower compared to 2017 by RSD 1,880,788 thousand: transaction deposits are RSD 3,465,212 lower, while other deposits recorded an increase in RSD 1,584,424 thousand.

Decrease in transaction deposits came as a result of reduction in RSD transaction deposits in the amount of RSD 3,397,020 thousand, while transaction deposits in foreign currency recorded a decrease in RSD 68,192 thousand compared to 31st December 2017. The structure of transaction deposits is still dominated by deposits in local currency with a share of 58.98%, while the remaining 41.02% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 93.98%, while dinar deposits account for 6.02%. Foreign currency savings have increased by about EUR 12 million.

Borrowings

Borrowings, as part of the item deposits and other liabilities to banks and other customers, amount to RSD 5,818,201 thousand, with a share percentage in total liabilities of 1.59%, decreased compared to 2017, in the amount of RSD 1,593,786 thousand, due to regular repayments and prepayments of foreign credit lines as follows:

- Prepayment of EIB credit line of EUR 5,298 thousand and regular repayment of EUR 1,542 thousand,
- Regular repayment of EAR-Fund revolving credit line of EUR 113 thousand
- Regular repayment of the credit line from the Italian Government of EUR 462 thousand, and
- Regular repayment of the EBRD credit line of EUR 6,000 thousand

i.e. a total decrease in dinars of RSD 1,593,545thousand compared to 31st December 2017.

As of 31st March 2018, the item borrowings from foreign banks relates to the liability to EBRD in the amount of RSD 1,420,624 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 3,742 thousand,
2. Government of the Republic of Italy – RSD 194,452 thousand,
3. European Investment Bank (EIB) – RSD 2,822,670 thousand,
4. European Agency for Reconstruction and Development (EAR) – RSD 85,237 thousand, and
5. KfW – RSD 1,291,476 thousand.

3.17. Provisions

Provisions in the amount of RSD 1,499,490 thousand consist of provisions for:

- coverage of liabilities (court disputes) in the amount of RSD 858,865 thousand,
- long-term employee salaries of RSD 451,677 thousand and
- provisions for losses on off-balance sheet assets of RSD 188,948 thousand.

Compared to 2017, in the reporting period there was an increase in provisions in the amount of RSD 131,439 thousand as a result of a net increase in provisions for court disputes of RSD 66,883 thousand and an increase in provisions for losses from off-balance-sheet assets of RSD 64,556 thousand.

Provisions for court disputes

Approval of provisions was provided on the basis of the assessment of future outflows in the amount of claims, including the interest and costs.

Compared to 31st December 2017, changes occurred in the total level of provisions on this basis, in the net amount of RSD 66,883 thousand recognised in the income statement as the expense of provisions for court fees, as a result of increased provisions for existing disputes and allocation of provisions for 420 new cases. Provisions in the amount of RSD 858,865 thousand were allocated for a total of four hundred and ninety cases on 31st March 2018.

Out of the total amount of provisions for court liabilities recognized as of 31st March 2018 in the total amount of RSD 858,865 thousand, the most important item is the provision for the case with Intereksport a.d. Beograd (in bankruptcy) – for covered letters of credit from 1991, in the amount of RSD 316,331 thousand, or USD 1,946 thousand for the principal, and USD 1,267 thousand for the interest.

For another four hundred and eighty nine disputes, the Bank made provisions in the total amount of RSD 542,534 thousand.

3.18. Other liabilities

Other liabilities amounting to RSD 5,521,838 thousand are lower by RSD 2,021,604 thousand compared to 2017. Percentage of share of other liabilities in the total liabilities is 1.50% (2017: 2.04%). The most important items in other liabilities are: liabilities from profit amounting to RSD 2,507,577 thousand, other liabilities from SPOT transaction of RSD 1,018,883 thousand, liabilities for net salaries charged to expenses of RSD 273,425 thousand, overpaid retail loans of RSD 192,991 thousand, and liabilities for the purchase and sale of foreign currency from banks in a foreign currency of RSD 118,385 thousand.

Reduction of other liabilities in the amount of RSD 2,021,604 thousand mostly refer to: reduced liability for the purchase and sale of foreign currency from banks in the amount of RSD 829,396 thousand, reduced liabilities for payments related to payment cards of foreign validity (Visa, Master) in the amount of RSD 378,345 thousand, reduced liabilities for the activities of purchase of foreign currency on the foreign exchange market in the amount of RSD 354,900 thousand, reduction of other liabilities from SPOT transactions in the amount of RSD 233,069 thousand, and reduction of liabilities towards service suppliers in the amount of RSD 177,138 thousand.

3.19. Capital

The Bank's capital comprises the original founding capital, reserves from profit, revaluation reserves, accumulated result and income as 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 31.03.2018 the Bank's capital consists of:

In thousand RSD	2018	2017
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	11,061,535
Revaluation reserves	1,862,226	3,953,060
Profit/loss from changes in the value of debt and owner instruments	2,330,301	(3,538)
Actuarial gains	77,199	77,199
Reserves	15,331,261	15,088,256
Accumulated loss/profit	8,137,249	19,881
Effect of the first application of IFRS9	(1,161,693)	-
Profit	1,986,846	8,117,368)
Balance as at date	**64,328,213**	**63,260,055**

After adoption of the Decision of the Bank's Assembly (April 2018), the coverage of the negative effect of the first application of IFRS 9 will be made as well as the allocation of the remaining profit to provisions and payment of dividends to the owners of ordinary and preferential shares.

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.

The capital adequacy ratio of the Bank as of 31st March 2018, calculated on the basis of the financial statements, equals 28.18% having implemented the applicable decisions of the National Bank of Serbia for 2018.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 31st March 2018the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 31.03.2018 is as follows:

Shareholder's 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	1.84
Company Dunav Osiguranje	1.02
GLOBAL MARCO CAPITAL OPPORTUNITIES	0.76
STANKOM Co DOO BEOGRAD	0.70
KOMAK-PAN DOO	0.55
Evropa Osiguranje AD in bankruptcy	0.52
SOCIETE GENERALE BANKA SRBIJA	0.48
UNICREDIT BANK Srbija AD	0.47
Others	8.53
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 31.03.2018

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Value adjustments	Net	Off-balance	Total
1. Kom. Banka AD Budva	6,602	899	-	71	7,430	-	7,430
2. Kom. Banka AD Banja Luka	473,541	-	382	5,971	467,952	-	467,952
3. KomBank INVEST	-	100	3	-	103	197	300
TOTAL:	**480,143**	**999**	**385**	**6,042**	**475,485**	**197**	**475,682**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom. Banka AD Budva	546,243	-	1,653	547,896
2. Kom. Banka AD Banja Luka	179,706	-	-	179,706
3. KomBank INVEST	129	-	-	129
TOTAL:	**726,078**	**-**	**1,653**	**727,731**

INCOME AND EXPENSES for period 01.01 – 31.03.2018.

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Kom. Banka AD Budva	18	582	-	-	600
2. Kom. Banka AD Banja Luka	1,004	1,547	-	(338)	2,213
3. KomBank INVEST	-	289	-	-	289
TOTAL:	**1,022**	**2,418**	**-**	**(338)**	**3,102**

Based on transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gains amounting to RSD 8,068 thousand.

4. B. Balance as of 31.12.2017

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Net	Off-balance	Total
1. Kom. Banka AD Budva	6,589	902	-	7,491	-	7,491
2. Kom. Banka AD Banja Luka	490,815	42	1,295	492,152	-	492,152
3. KomBank INVEST	-	119	-	119	200	319
TOTAL:	**497,404**	**1,063**	**1,295**	**499,762**	**200**	**499,962**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom. Banka AD Budva	1,019,079	-	1,654	1,020,733
2. Kom. Banka AD Banja Luka	229,884	-	-	229,884
3. KomBank INVEST	49	-	-	49
TOTAL:	**1,249,012**	**-**	**1,654**	**1,250,666**

INCOME AND EXPENSES for period 01.01- 31.03. 2017.

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom. Banka AD Budva	23	796	-	(274)	545
2. Kom. Banka AD Banja Luka	1,043	433	-	(263)	1,213
3. KomBank INVEST	-	481	(99)	-	382
TOTAL:	**1,066**	**1,710**	**(99)**	**(537)**	**2,140**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 518 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 of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the year 2017 (grouping of branches into Business centers, changes in the function of economy and population, changes in decision making), as well as changes of internal acts which regulates risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of problematic receivables and exposures to one person or a group of related parties has improved.

Starting from 30.06.2017. The Bank applies the Basel III standard and has taken all necessary measures to timely harmonize its business with the new regulations. Through a clearly defined process of introducing new and significantly altered products, services and processes related to processes and systems, the Bank analyzes their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially adverse effects on the financial result Banks.

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;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;

The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.

The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

At the beginning of 2018, the Bank performed the harmonization of internal acts (methodologies and procedures) in accordance with the amendments to the regulations of the National Bank of Serbia in the field of accounting and financial reporting, introducing the obligation to apply the International Financial Reporting Standard 9 in banks (IFRS 9). The aforementioned amendments prescribe the obligation of banks to, from 1 January 2018 and going forward, the impairment calculation is carried out in accordance with IFRS 9. In accordance with IFRS 9, the Bank has adopted a new Methodology for assessing impairment of balance sheet assets and probable loss on off-balance sheet items, which has beenapplied since 1st of January 2018.

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Department) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

Types of Risk

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. Considering the importance of credit risk, dispersion has been made at decision levels when placing funds of the Bank. This dispersion is provided by determining the limits to which individual persons or authorities may decide. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors

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

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

Credit Risk Management

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

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

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

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;
- 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 reversal 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 claims that are late in settling liabilities over 90 days, under any material obligation to the Bank (parent company) or subordinated companies, receivables where, on the basis of the financial situation, it is estimated that the borrower will not be able to settle its obligations in completely without taking into account the possibility of implementing credit protection instruments (regardless of whether they are late in settling liabilities), claims for which the amount of the impairment is determined on an individual basis, as well as potential liabilities based on the issued guarantees (if it is probable that they will be activated) and the irrevocable liabilities assumed (if their withdrawal would lead to the creation of claims that the Bank considers would not be collected completely without the realization of security means). Problems are also considered as claims based on: termination of recording of interest income, commissions and fees in the income statement specific adjustments for credit risk, which are calculated due to significant deterioration in credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, the restructuring of receivables due to the financial difficulties of the debtor, and the submission of a motion to initiate bankruptcy proceedings against the debtor. Problematic claims include all receivables from the debtor, if one claim is classified as a 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 (interest rate reduction, 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 and is acceptable for the Bank (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). Risk category 4 is divided into three sub-categories: 4 - non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

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 subcategory 4D, 4DD and 5 according to internal rating system) i.e. loans that are classified into level 3 in accordance with IFRS 9 standard. On that occasion the Bank 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. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, 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:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when, due to the financial difficulties of the debtor, the Bank significantly changes the conditions for repayment of claims in relation to those initially contracted;
- The debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation or some other type of financial reorganization of the borrower) etc.

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 impairment amount is calculated as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows whereby the Bank recognizes the existence of several possible collection scenarios when assessing the expected future cash flows. On that occasion, scenarios that can be considered are the following scenario from business operations (restructuring/agreement and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and sale of receivables. The probability of a certain scenario the Bank estimates based on the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

Group Assessment

Impairment is assessed on a group basis for loans with no objective evidence of impairment identified and which are not individually significant with the status default and for loans where the amount of value adjustments on the individual basis has not been determined, as well as on commissions and other receivables that do not have elements to reduce to 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. The loan loss impairment methodology has been significantly changed and instead IAS 39's incurred loss approach, forward-looking expected loss (ECL) approach is applied, in accordance with IFRS 9, through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies.

Group impairment is based on the expected credit losses associated with the probability of default in the next twelve months (stage 1) unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset (stage 2).
Appreciating the specifics in dealing with clients, migrations forcorporate clients, micro business, households by types of products, financial institutions and exposures to countries.

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

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

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

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 March 31, 2018 and December 31, 2017 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).

(000) RSD

	31.03.2018		31.12.2017	
	Gross	Net	Gross	Net
I. Assets	**399,678,901**	**369,183,538**	**399,678,901**	**369,183,538**
Cash and cash funds held with the central bank	49,109,642	49,109,642	49,840,887	49,840,887
Loans and receivables due from banks and other financial institutions	19,770,985	19,553,155	29,746,347	29,543,789
Loans and receivables due from customers	171,925,571	153,558,162	171,931,966	153,897,367
Financial assets	127,548,944	127,547,167	117,288,770	117,288,767
Other assets	7,024,770	5,048,507	9,347,623	6,798,506
Non-montary assets	22,099,174	12,244,883	21,523,308	11,814,222
II. Off-Balance Sheet Items	**36,781,936**	**36,592,987**	**34,284,701**	**34,160,309**
Payment guarantees	3,060,126	2,994,025	3,443,746	3,416,712
Performance bonds	3,293,710	3,274,879	4,349,152	4,320,139
Irrevocable commitments	30,178,379	30,096,159	26,194,257	26,149,893
Other items	249,720	227,923	297,546	273,565
Total (I+II)	**434,261,022**	**403,654,503**	**433,963,602**	**403,343,847**

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

(000) RSD

31.03.2018	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	36,406,345	1,267,743	37,674,088	82,682	636,536	719,219	36,954,869
Cash Loans	25,476,938	135,788	25,612,727	106,950	91,245	198,196	25,414,531
Agricultural Loans	7,296,453	253,548	7,550,001	69,993	124,517	194,510	7,355,491
Oher Loans	5,508,200	152,012	5,660,212	30,252	135,525	165,778	5,494,434
Micro business	8,051,100	659,189	8,710,288	115,858	289,583	405,441	8,304,847
Total Retail	**82,739,035**	**2,468,280**	**85,207,315**	**405,736**	**1,277,407**	**1,683,143**	**83,524,172**
Large corporate clients	36,623,626	16,461,456	53,085,082	698,754	12,137,615	12,836,369	40,248,713
Middle corporate clients	8,763,618	2,020,976	10,784,594	71,518	1,254,598	1,326,116	9,458,478
Small corporate clients	3,631,847	1,345,281	4,977,127	33,103	690,880	723,982	4,253,145
State owned clients	8,770,669	910,567	9,681,236	64,227	161,556	225,783	9,455,454
Other	6,762,049	1,428,168	8,190,217	144,261	1,427,756	1,572,017	6,618,200
Total Corporate	**64,551,809**	**22,166,448**	**86,718,257**	**1,011,862**	**15,672,405**	**16,684,267**	**70,033,990**
Total	**147,290,844**	**24,634,728**	**171,925,572**	**1,417,598**	**16,949,812**	**18,367,410**	**153,558,162**
Due from Banks	**19,574,621**	**196,363**	**19,770,985**	**21,467**	**196,363**	**217,830**	**19,553,155**

(000) RSD

31.12.2017	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	35,946,088	1,532,193	37,478,281	94,115	520,302	614,417	36,863,864
Cash Loans	24,286,208	302,978	24,589,186	200,232	229,834	430,066	24,159,120
Agricultural Loans	7,153,549	205,883	7,359,432	61,549	100,090	161,639	7,197,793
Oher Loans	5,353,083	383,880	5,736,963	76,780	372,548	449,328	5,287,635
Micro business	7,704,698	697,867	8,402,565	100,490	289,855	390,345	8,012,220
Total Retail	**80,443,626**	**3,122,801**	**83,566,427**	**533,166**	**1,512,629**	**2,045,795**	**81,520,632**
Large corporate clients	35,400,783	16,940,157	52,340,940	260,084	11,881,024	12,141,108	40,199,832
Middle corporate clients	9,776,084	2,037,738	11,813,822	54,739	1,349,336	1,404,075	10,409,747
Small corporate clients	3,979,898	1,378,923	5,358,821	64,820	685,329	750,149	4,608,672
State owned clients	9,612,889	997,190	10,610,079	89,830	166,416	256,246	10,353,833
Other	6,804,318	1,437,559	8,241,877	78	1,437,148	1,437,226	6,804,651
Total Corporate	**65,573,972**	**22,791,567**	**88,365,539**	**469,551**	**15,519,253**	**15,988,804**	**72,376,735**
Total	**146,017,598**	**25,914,368**	**171,931,966**	**1,002,717**	**17,031,882**	**18,034,599**	**153,897,367**
Due from Banks	**29,543,789**	**202,558**	**29,746,347**	**-**	**202,558**	**202,558**	**29,543,789**

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 (impaired receivables). Estimates of impairment are made for each individually significant placement with the status of non-settlement of defaults (default risk sub-category 4D and 4DD according to the internal rating system and risk categories 5), if there is objective evidence of impairment as a result of one or more events occurring after initial recognition financial assets and if there is a measurable decrease in future cash flows.

Receivables Matured but not Impaired

For receivables matured but not impaired (rating categories 1, 2, 3 and subcategory 4), impairment is assessed by group (uncollected receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

Group impairment is based on the expected credit losses associated with the probability of default in the next twelve months (stage 1) unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset (stage 2). Appreciating the specifics in dealing with clients, migrations forcorporate clients, micro business, households by types of products, financial institutions and exposures to countries.

5.1.2 Non-Performing Receivables

(000) RSD

31.03.2018	Gross Exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**85,207,315**	**1,683,143**	**2,468,280**	**849,661**	**1,277,407**	**2,90%**	**2,254,127**
Housing Loans	37,674,088	719,219	1,267,743	429,399	636,536	3,37%	1,251,533
Cash Loans	25,612,727	198,196	135,788	20,717	91,245	0,53%	94,445
Agricultural Loans	7,550,001	194,510	253,548	18,282	124,517	3,36%	239,545
Oher Loans	5,660,212	165,778	152,012	0	135,525	2,69%	9,208
Micro business	8,710,288	405,441	659,189	381,263	289,583	7,57%	659,396
Total Retail	**86,718,257**	**16,684,267**	**22,166,448**	**17,364,564**	**15,672,405**	**25,56%**	**20,450,059**
Agricultural Loans	5,644,751	92,892	244,527	15,515	65,602	4,33%	244,385
Manufacturing Industry	21,151,358	5,860,507	8,965,356	8,211,329	5,719,310	42,39%	8,958,760
Electricity	163,678	4,145	57,215	0	366	34,96%	57,215
Construction Loans	6,417,815	980,565	934,714	811,618	888,208	14,56%	894,581
Wholesale and Retal	20,881,966	2,028,844	3,145,781	2,352,291	1,718,894	15,06%	3,139,588
Services Loans	11,860,603	1,384,203	1,461,177	1,436,405	1,164,898	12,32%	1,461,286
Real Estate Loans	3,512,634	734,855	1,334,088	965,999	679,631	37,98%	1,334,510
Other	17,085,451	5,598,256	6,023,588	3,571,407	5,435,496	35,26%	4,359,735
	171,925,572	**18,367,410**	**24,634,728**	**18,214,226**	**16,949,812**	**14,33%**	**22,704,186**
	19,770,985	**217,830**	**196,363**	**-**	**196,363**	**0,99%**	**-**

(000) RSD

31.12.2017	Gross Exposure	Gross Value Adjustment	Loans matured and not impaired	Restructured Loans matured and not impaired	Impairment	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**83,566,427**	**2,045,795**	**3,122,801**	**859,561**	**1,512,629**	**3,74%**	**2,648,094**
Housing Loans	37,478,281	614,417	1,532,194	430,253	520,302	4,09%	1,511,866
Cash Loans	24,589,186	430,066	302,978	27,510	229,833	1,23%	232,677
Agricultural Loans	7,359,432	161,639	205,882	19,626	100,090	2,80%	196,094
Oher Loans	5,736,963	449,327	383,880	-	372,548	6,69%	10,416
Micro business	8,402,565	390,345	697,866	382,172	289,855	8,31%	697,041
Total Retail	**88,365,539**	**15,988,804**	**22,791,567**	**17,862,874**	**15,519,253**	**25,79%**	**21,102,348**
Agricultural Loans	6,066,845	161,354	253,050	28,243	113,994	4,17%	252,908
Manufacturing Industry	22,380,808	5,941,568	9,145,453	8,191,755	5,721,734	40,86%	6,591,232
Electricity	149,035	28,187	67,005	-	174	44,96%	67,005
Construction Loans	5,681,922	891,110	934,013	810,916	885,538	16,44%	1,148,489
Wholesale and Retal	22,011,868	1,845,546	3,652,235	2,846,093	1,756,203	16,59%	3,804,104
Services Loans	13,182,040	1,163,568	1,438,755	1,411,506	1,089,579	10,91%	1,465,235
Real Estate Loans	1,512,515	692,376	1,345,149	960,907	691,123	88,93%	1,370,156
Other	17,380,506	5,265,097	5,955,907	3,613,454	5,260,908	34,27%	6,403,219
	171,931,966	**18,034,599**	**25,914,368**	**18,722,435**	**17,031,882**	**15,07%**	**23,750,442**
	29,746,347	**202,558**	**202,558**	**-**	**202,558**	**0,68%**	**-**

5.1.3 Performing Receivables

(000) RSD

	31.03.2018.					31.12.2017.				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of Collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of Collaterals
Housing Loans	36,244,345	161,320	679	36,406,345	36,171,573	35,707,544	228,663	9,881	35,946,088	35,671,079
Cash Loans	25,399,583	75,106	2,248	25,476,938	9,819,484	24,222,726	62,847	635	24,286,208	11,521,899
Agricultural Loans	7,275,997	20,189	266	7,296,453	5,808,198	7,125,547	27,708	294	7,153,549	6,059,245
Other	5,480,650	23,611	3,938	5,508,200	98,032	5,331,736	18,050	3,297	5,353,083	96,689
Micro Busines	7,677,810	319,490	53,799	8,051,100	8,051,191	7,286,079	356,729	61,890	7,704,698	7,704,263
Total Retail	**82,078,386**	**599,717**	**60,931**	**82,739,035**	**59,948,478**	**79,673,633**	**693,996**	**75,997**	**80,443,626**	**61,053,174**
Large corporate clients	35,902,634	720,992	-	36,623,626	34,462,498	34,569,288	831,495	-	35,400,783	34,954,220
Middle corporate clients	8,750,897	12,282	440	8,763,618	8,650,452	9,584,446	190,160	1,478	9,776,084	9,647,024
Small corporate clients	3,579,058	52,789	-	3,631,847	3,632,020	3,844,531	135,365	2	3,979,898	3,955,505
State owned clients	7,391,575	1,333,988	45,107	8,770,669	5,791,304	7,793,105	1,768,042	50,777	9,611,924	6,158,448
Other	3,078,037	3,684,011	-	6,762,049	3,684,011	3,052,022	3,751,885	52	6,803,959	3,752,134
Total Corporate	**58,702,201**	**5,804,062**	**45,547**	**64,551,809**	**56,220,285**	**58,843,392**	**6,676,947**	**52,309**	**65,572,649**	**58,467,332**
Total	**140,780,587**	**6,403,779**	**106,478**	**147,290,844**	**116,168,763**	**138,517,024**	**7,370,943**	**128,307**	**146,016,275**	**119,520,506**
Due from Banks	**19,574,621**	-	-	**19,574,621**	-	**29,545,113**	-	-	**29,545,113**	-

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

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

Starting from 30.06.2017., the Bank adjusts its operations with the regulated indicator of liquid assets coverage, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017	31.03.2018	31.12.2017
As at 31st	4.83	4.30	4.58	4.10	457%	436%
Average for the period	4.72	3.99	4.39	3.61	459%	
Maximum for the period	4.92	5.61	4.68	5.21	489%	-
Minimum for the period	4.32	2.79	3.99	2.41	436%	-

During the Q1 2018, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with last day liquidity ratio limits internally defined:

	Limits	31.03.2018.	31.12.2017.
GAP up to 1 month / Total assets	Max (10%)	(0.35%)	2.16%
Cumulative GAP up to 3 months / Total assets	Max (20%)	0.16%	5.97%

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 the appropriate 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, which is why no significant outflows of funds are expected.

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

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

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

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.

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

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

The Bank estimates the impact that could have standardized interest rate shock (parallel positive and negative shift of interest rates on the reference yield curve by 200 basis points) for each significant currency individually and for all other currencies together.

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:

(000) RSD

	Limits	31.03.2018	31.12.2017
Relative GAP	Max 15%	2.36%	2.18%
Mismatch ratio	0.75 – 1.25	1.03	1.03

During the Q1 2018, interest rate risk indicators moved within internally defined limits.

In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.

Complianse with internally defined limits of economic value of capital

	31.03.2018	31.12.2017
As at	4.86%	3.65%
Average for the year	4.15%	3.86%
Maximum for the year	4.86%	4.49%
Minimum for the year	3.65%	3.03%
Limit	**20%**	**20%**

Interest rate risk GAP report of monetary sub-balance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.
The Bank's management believes that appropriate matching of items per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

5.3.2. Currency Risk

The bank is exposed to foreign exchange risk, which manifests itself through the possibility of adverse effects on the financial result and capital due to the change in inter-currency relations, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. The foreign exchange risk is exposed to all positions contained in the banking book and trading book in foreign currency and gold, as well as RSD positions indexed by currency clause.

In order to minimize exposure to foreign exchange risk, the Bank performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking foreign currency risk from the process of its management. The primary role in the foreign exchange risk management process is performed by the competent committees within their competencies, whose decisions may influence the Bank's exposure to this risk.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank, in a comprehensive manner, identifies timely the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and indicator of foreign currency risk;
- VaR;
- Stress test;
- backtesting.

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile through the setting of a system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and control of compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk during the day enabled the timely undertaking of measures in order to maintain foreign currency risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance compliance monitoring.

Foreign exchange risk reporting includes an internal and external reporting system and is carried out on a daily basis.

The Bank aligns its operations with the regulated foreign exchange risk limit, which represents the ratio of the open foreign currency position and gold and regulatory capital positions.

Breakdown of the total currency risk balance and legally defined currency risk ratio at Marchr 31 2018.:

	31.03.2018	31.12.2017
Total currency risk balance	2,605,944	2,248,347
Currency risk ratio	5.01%	4.40%
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, agency services and asset management.

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

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 scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual protective layers of capital;
- respect of the minimum regulatory capital adequacy ratios increased for the combined protection layer of capital;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank's regulatory capital represents the sum of the share capital (composed of the basic share capital and the additional share capital) and the supplementary capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, basic or basic share) of the Bank and collections: risk weighted exposure to credit risk, counterparty risk, risk of decreased value of purchased receivables and risk of settlement / delivery on free delivery, settlement / delivery risk except on the basis of free delivery), market risks (including foreign exchange and price risk), operational risk and other risks from Pillar I. The risk weighted exposure to credit risk, the counterparty risk, the risk of a decrease in the value of the purchased receivables and the risk of settlement / delivery on the basis of free delivery are determined in accordance with the prescribed risk weight for all classes of assets. Risk assets based on exposure to operational risk are obtained by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

Capital adequacy ratio		**(000) RSD**
	31.03.2018.	**31.12.2017**
Share Capital	55,365,812	55,122,806
Basic Share Capital	54,992,302	54,749,296
Additional Share Capital	373,510	373,510
Supplementary Capital	-	-
Deductible items	(3.352.935)	(3,992,144)
Capital	**52,012,877**	**51,130,662**
Credit risk-weighted assets	148,015,682	146,903,022
Operational risk exposure	31,379,213	31,680,737
Foreign currency risk exposure	5,180,927	4,761,814
Capital adequacy ratio (min. 14,38%)	**28.18%**	**27.89%**
Share capital adequacy ratio (мin. 12,38%)	**28.18%**	**27.89%**
Basic share capital adequacy ratio (min. 10,88%)	**27.98%**	**27.68%**

During the firts quarter of 2018, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital protection, 6% + combined protection layer of capital and 4.5% + combined protection layer of capital for indicators of the adequacy of total, basic and basic equity capital respectively).

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.

During Q1 2018, the Bank also calculated the leverage indicator in accordance with the regulatory requirement, which represents the ratio of the share capital and the amount of exposure that are included in the calculation of the indicator.
The Capital Management Plan, as part of the capital management system, includes:

- strategic goals and the period for their realization;
- a description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- procedures for planning an adequate level of available internal capital;
- the way to reach and maintain an adequate level of available internal capital;
- restrictions on available internal capital;
- demonstrating and explaining the effects of stress testing on internal capital requirements;
- allocation of capital;
- business plan in case of occurrence of unforeseen events.

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement,
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed,
- provides an adequate level of available internal capital in accordance with the risk profile of the Bank,
- is involved in the Bank's management system and decision-making,
- subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- calculation of the amount of internal capital requirements for individual risks;
- determining the total internal capital requirement;
- comparing the following elements
    - capital and available internal capital;
    - minimum capital requirements and internal capital requirements for individual risks;
    - collecting minimum capital requirements and total internal capital requirements.

6. EVENTS AFTER THE BALANCE SHEET DATE

A regular session of the Bank's Assembly was held on 26 April 2018, where the following was adopted:

- Decision on the adoption of the Annual Report on business activities of Komercijalna Banka a.d Beograd and regular financial statements with an opinion of an external auditor for 2017,
- Decision on the adoption of the Annual Report on business activities and consolidated financial statements of Group Komercijalna Banka a.d. Beograd with an opinion of an external auditor for 2017,
- Decision on the allocation of profit from 2017 and unallocated profit from previous years.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet items in Dinars (RSD) on 31st March 2018 and 31st December 2017 for certain main currencies are as follows:

Currencies	Official NBS rate	
	2018	2017
USD	96.0842	99.1155
EUR	118.3853	118.4727
CHF	100.6507	101.2847

In Belgrade,
On 10 May 2018

Persons responsible for drafting the financial statements

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

KOMERCIJALNA BANKA AD BEOGRAD

Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 344 13 35
Registration number: 07737068
Tax Identification Number: SR 100001931
VAT number: 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2018 to 31/03/2018 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 International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for the preparation of financial statements

Snežana Pejčić Director of the Accounting Division	Sanja Đeković Executive Director for Finance and Accounting

БЕОГРАД
4