REPORT ON THE BANK OPERATION FOR THE SECOND QUARTER OF 2018

Belgrade, August 2018

CONTENT

Quarterly report for the second quarter 2018 is an authentic presentation of the development and results of the operation of KOMERCIJALNA BANKA AD Beograd generated in the second quarter, as well as in the first six months of 2018.

1. PRESENTATION OF THE BASIC OPERATION INDICATORS IN THE PERIOD FROM 01 JANUARY TO 30 JUNE 2018

DESCRIPTION	30 June 2018	31 May 2018	30 April 2018	31 March 2018	2017	2016
PROFIT AND LOSS STATEMENT (IN RSD 000)						
Pre-tax profit/loss	3,620,749	3,170,105	2,572,487	1,986,846	7,187,250	-8,377,636
Net interest income	6,229,880	5,173,198	4,109,826	3,098,218	12,446,197	13,462,734
Net fee income	2,553,018	2,103,611	1,658,647	1,201,560	5,082,227	4,817,314
Operating expenses	5,210,834	4,395,561	3,477,838	2,600,897	10,833,081	11,086,858
Net income/expenses from indirect loan write-off and provisions	-35,188	203,766	218,475	231,041	17,883	-14,907,539

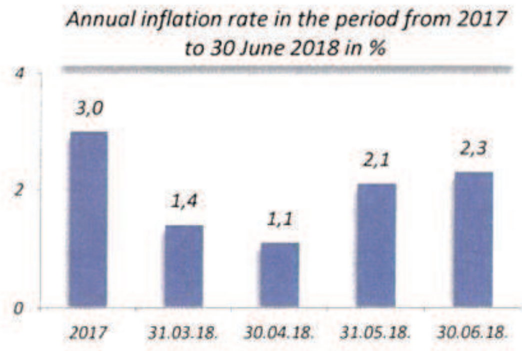
DESCRIPTION	30 June 2018	31 May 2018	30 April 2018	31 March 2018	2017	2016
BALANCE SHEET (RSD 000)						
On-balance assets	380,551,714	374,206,089	370,472,825	367,061,517	369,183,538	400,017,469
Off-balance operation	468,241,625	469,657,134	466,924,150	468,142,986	474,428,780	520,370,274
RETAIL						
Loans [1]	87,219,022	86,055,958	84,565,569	83,705,499	81,712,222	75,522,465
Deposits [2]	249,739,581	246,803,115	245,059,021	244,420,569	241,210,420[3]	231,312,395
CORPORATE						
Loans	75,002,636	71,612,769	68,237,737	69,431,410	71,725,704	74,083,897
Deposits	43,615,979	42,345,054	41,595,953	39,009,674	41,371,592[4]	78,300,568

RATIOS	30 June 2018	31 May 2018	30 April 2018	31 March 2018	2017	2016
LOAN TO DEPOSIT RATIO						
Gross loans/deposits (%)	61,39	61,51	60,33	60,72	61,30	58,74
Net loans/deposits (%)	56,19	56,29	55,10	55,43	56,11	50,70
EQUITY (000 RSD)	63,074,351	62,605,140	61,960,052	64,328,213	63,260,055	55,424,302
Capital adequacy (%)	29,31	28,19	28,25	28,18	27,89	26,97
Number of employees	2,809	2,813	2,824	2,821	2,806	2,858
PROFITABILITY PARAMETERS						
ROA (%)	1,9	2,1	2,1	2,2	1,9	-2,1
ROE - to total equity (%)	11,5	12,1	12,2	12,5	11,9	-13,9
Net interest margin to the total assets (%)	3,3	3,4	3,3	3,4	3,3	3,3
Cost / income ratio (%)	59,3	60,41	60,29	60,49	61,80	60,65
Operating cash flows (000 RSD)	5,473,709	4,670,269	3,690,205	3,199,418	9,231,864	7,987,047
Assets per employee (000 EUR)	1,147	1,126	1,110	1,099	1,111	1,134
Assets per employee (000 RSD)	135,476	133,027	131,187	130,118	131,569	139,964

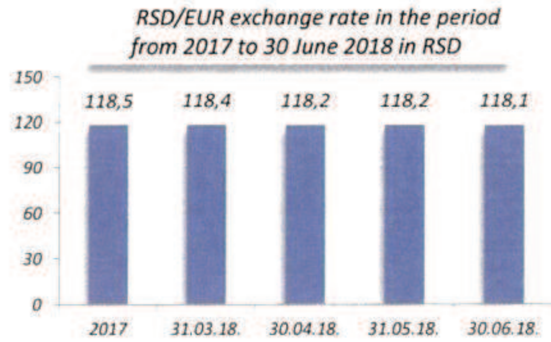
1 Loan position (retail and corporate) does not include other loans and claims
2 Deposit position does not include other liabilities and assets received through credit lines
3 As of 01 January 2018, client deposits were transferred from the corporate business function to the retail business function, due to which the data published in the Annual Report differ - the adjustment was made for the purpose of the comparability of the data from 2017 to those from 2018
4 Same

2. MACROECONOMIC OPERATION CONDITIONS IN THE PERIOD FROM 01 JANUARY TO 30 JUNE 2018

The trend of the inflation movement within the limit of target rates until the end of 2018 (3.0%±1.5 pp) also continued in the second quarter of 2018. The inflation rate yoy amounts to 2.3% yoy at the end of the second quarter of 2018. From the beginning of the year, the inflation rate yoy increased and its movement was determined by expected seasonal growth of prices of travel arrangements, petroleum products, and growth in price of particular types of food.

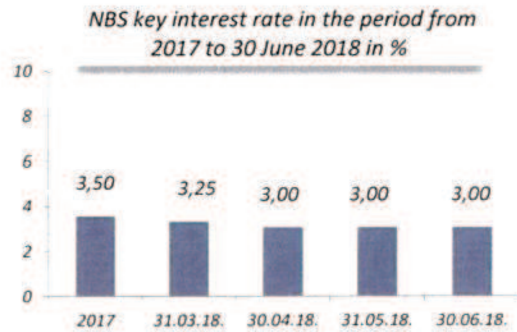


In the second quarter of 2018, dinar did not significantly oscillated to euro. The dinar exchange rate was stabilised at the value of around RSD 118 for one euro, in addition to other factors, also as the result of the National Bank of Serbia intervention at the international FX market (net buying of around EUR 1,190 million until the



From the end of 2017 to the end of the second quarter of 2018, the NBS was gradually decreasing the key interest rate (KIR). Such decision was made having regard to the inflation projections and factors in the following period. Until the year end, gradual approximation of the inflation rate to the central target value (3.0%) is expected, but, most probably, it will remain closer to lower target limit.

The events on the financial commodity and financial market and movement of the world prices of primary products, above all, those of petroleum and agricultural products, require further caution in managing the monetary policy. The NBS found the accelerated economy growth supported by the growth in lending activity of banks and higher inflow of foreign direct investments.



3. BANKING SECTOR AND THE BANK FINANCIAL POSITION

At the end of the first quarter of 2018, the Republic of Serbia banking sector accounts for total of 29 banks with the total assets of RSD 3,386,6 billion and the total capital of RSD 673,0 billion. Top ten banks by their on-balance assets account for 78,8% in the total sector assets. The net pre-tax result of the banking sector decreased by 3,0% in comparison to the same period in the previous year. At the end of the first quarter of 2018, the banking sector capital adequacy amounts to 22,7%[5]. According to the available non-audited financial statements, at the end of the first quarter, the Bank was ranked the third by the on on-balance assets volume and the fifth by pre-tax profit amount.

The Republic of Serbia banking sector generated a slight growth of the on-balance assets at the end of the first quarter of 2018 in relation to the end of 2017 of 0.5%. At the end of the first quarter of 2018, the total sector capital increased by 0.9% in relation to the end of 2017.

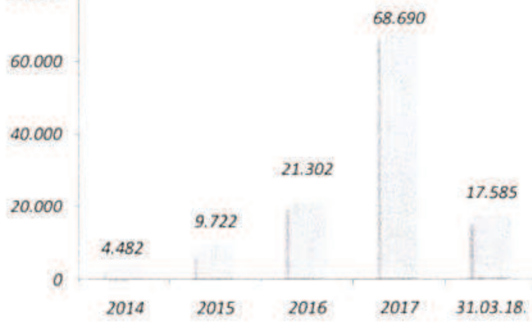
Movement of banking sector on-balance assets from 2014 to 31 March 2018 in %

Further prudential credit portfolio management and increase in the NPL cover with the allowances for impairment (66.8% at the end of the first quarter of 2018), impacted the slight decrease of the share by the Bank in the total on-balance assets of the banking sector to the level of 10.8% (-0.2 p.p.) and 9.6% of the total capital of the Serbian banking sector at the end of the first quarter of 2018.

Movement of the Bank market share in the period from 2014 to 31 March 2018 in %

During the first quarter of 2018, there was the profitability fall in the banking sector in relation to the same period of 2017 (-3.0%). As of 31 March 2018, positive net pre-tax financial result was generated in the amount of RSD 17.6 billion. In the respective period, 24 banks positively operated with the total profit of RSD 18.0 billion, whereas 5 banks negatively operated with the total loss of RSD 0.4 billion.

Banking sector profit in the period from 2014 to 31 March 2018 in RSD million



5 NBS, key macro-prudential indicators of the RS

4. BANK ORGANISATIONAL STRUCTURE AND BODIES

The Bank Board of Directors was set up in accordance with the Bank Law and Shareholders' Agreement - the Republic of Serbia and a group of international financial institutions (EBRD, IFC, DEG, SwedFund) and it is comprised of eight members, also including Chairperson, thereof, two persons are independent from the Bank. The members of the Board of Directors are nominated by the General Meeting of the Bank for the period of 4 years.
The competences of the Bank Board of Directors are defined based on Article 73 of the Bank Law and Article 27 of the Bank Articles of Association. As of 30 June 2018, the members of the Bank Board of Directors include:

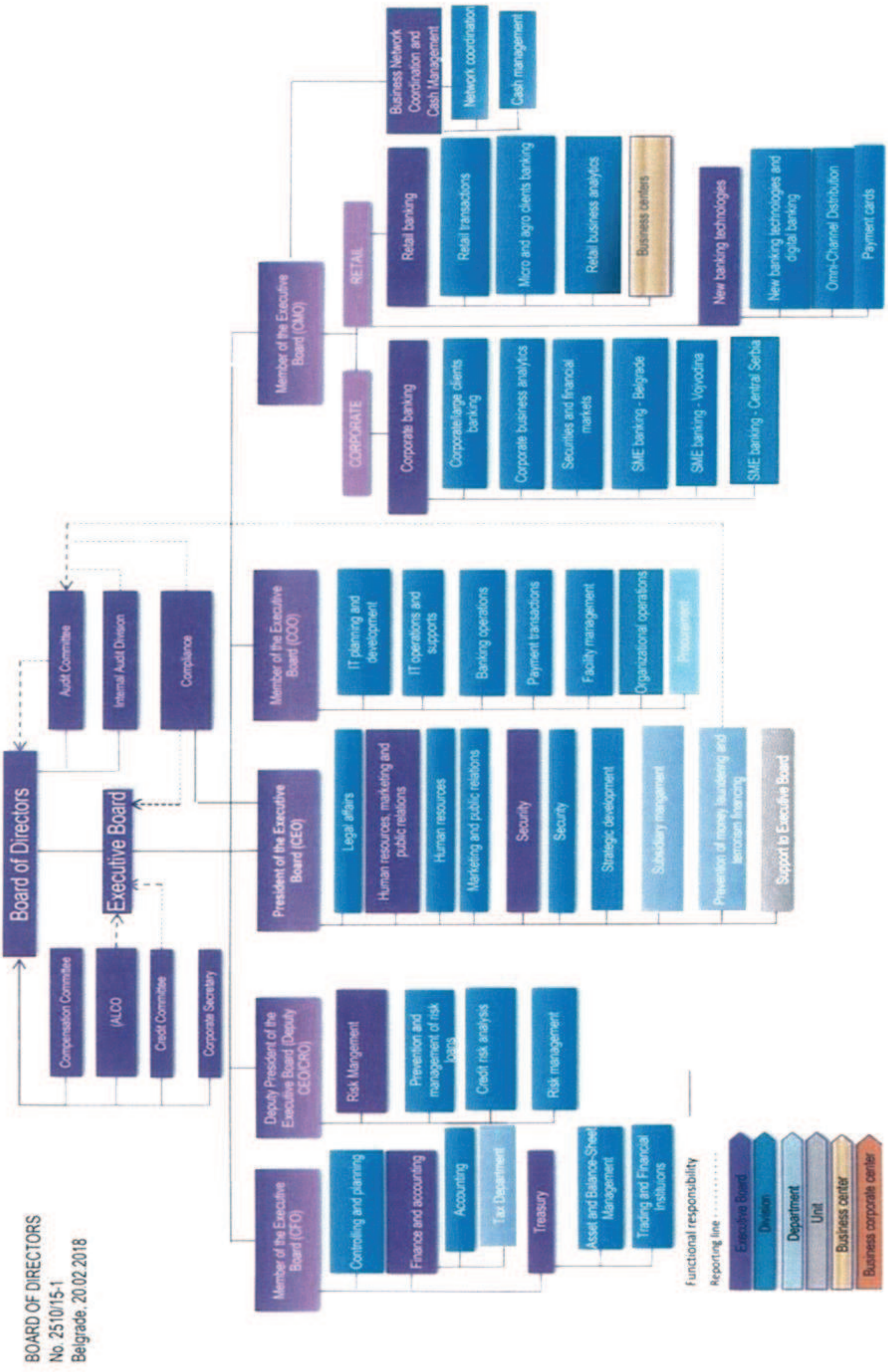
NAME AND SURNAME	POSITION
Mila Korugić Milošević	*Chairwoman of the Board of Directors*
Mirjana Čojbašić	*Member, Representative of the Republic of Serbia*
Marija Sokić	*Member, Representative of the Republic of Serbia*
Andreas Klingen	*Member, EBRD Representative*
Philippe Delpal	*Member, EBRD Representative*
Khosrow Zamani	*Member, IFC Representative*
Olivera Matić Brbora	*Independent Member*
Javed Hamid	*Independent Member*

The Executive Committee comprises the Executive Committee President, Executive Committee Deputy President, and minimum three members. The Bank Executive Committee members' term of office, also including the President and Deputy President, shall be four years from the date of nomination.
The competences of the Bank Executive Committee are defined based on Article 76 of the Bank Law and Article 31 of the Bank Articles of Association.
As of 30 June 2018, the members of the Bank Executive Committee include:

NAME AND SURNAME	POSITION
Dr Vladimir Medan	*President*
Sladjana Jelić	*Deputy President*
Dragiša Stanojević	*Member*
Dr Dejan Tešić	*Member*
Miroslav Perić	*Member*

Bank Operation Monitoring Committee comprises three members, thereof, two are the members of the Bank Board of Directors having relevant experience in the field of finance. One member of the Operation Monitoring Committee is the person independent of the Bank. The Committee members are selected for the period of four years.
The duties of the Operation Monitoring Committee are defined in Article 80 of the Bank Law and Article 34 of the Bank Articles of Association. As of 30 June 2018, the members of the Operation Monitoring Committee include:

NAME AND SURNAME	POSITION
Mirjana Čojbašić	*President*
Andreas Klingen	*Member*
Milena Kovačević	*Member*



Note: Organisation Chart of the Bank as of 30 June 2018

During the first quarter of 2018, the Bank reorganised its Corporate business function aimed at the increase in efficiency, effectiveness, and operation productivity.

The Corporate business function reorganisation was carried out on 02 March 2018 and the following was made within these activities:

- organisational changes,
- changes in human resources,
- changes in operating processes and activities, as well as
- management structure changes.

The implemented reorganisation resulted in the decrease in the number of organisational areas within the segment of small and medium enterprises, former five Business Corporate Centres (Belgrade, Novi Sad, Užice, Niš, Kragujevac) were reorganised in three Small and Medium Corporate Client Divisions (Belgrade, Vojvodina, and Central Serbia).
In addition to the above-mentioned, with the aim of accelerating its lending process and more efficient operation, the Bank also decentralised its credit analysis process, Instead of centralised credit analysis, credit analysis is connected with the sales teams within teams at the Small and Medium Corporate Divisions.
With the aim of achieving planned targets, planned budgets for the implementation of business activities were "lowered down" to the Divisions i,e, teams within the Divisions, thus, the Division directors are also the team leaders responsible for the implementation of their allocated budgets.

5. FINANCIAL POSITION AND RESULTS OF THE BANK OPERATION IN THE PERIOD FROM 01 JANUARY TO 30 JUNE 2018

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* *Note:* As of 01 January 2018, client deposits were transferred from the corporate business function to the retail business function, due to which the data published in the Annual Report differ - the adjustment was made for the purpose of the comparability of the data from 2017 to those from 2018
** *Same*

As of 30 June 2018, the Bank on-balance assets amount to RSD 380,551,7 million, they increased by RSD 11,368,2 million or 3,1% in relation to the end of 2017.

The off-balance assets decreased by 1,3% in the second quarter of 2018, and as at the end of June this year they amount to RSD 468,241,6 million.

In the first six months of 2018, the Bank decreased its indebtedness through the credit lines in the amount of RSD 3,267,3 million in relation to the balance at the end of 2017 (-44,2%). In the same period, the Bank's deposits grew (excluding other liabilities and credit lines) in the amount of RSD 11,256,3 million or 3,9%. Within the structure of the above-mentioned change, the retail deposits increased by RSD 8,529,2 million, whereas the corporate deposits increased by the amount of RSD 2,727,1 million. The above-mentioned changes also include the effect of RSD appreciation to EUR (0,3%) and depreciation to Swiss franc (0,6%) from the beginning of the year to the end of the second quarter of 2018.

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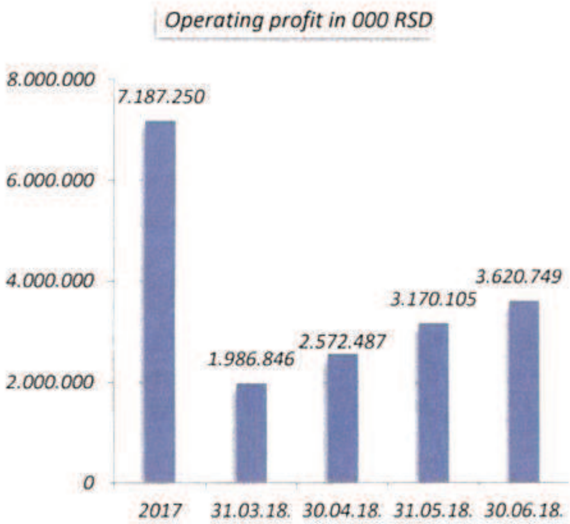
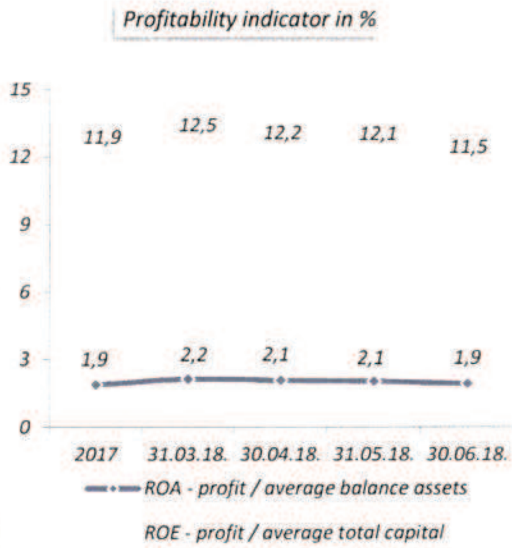




In the first six months of this year, the Bank, in relation to the same time period of the previous year, generated lower profit amount. The generated Bank profit in the period from 01 January to 30 June 2018 amounts to RSD 3,620,7 million, which is, in relation to the same period of the previous year, a decrease of RSD 799,4 million (-18,1%). In the second quarter of 2018, the generated profit provided the Bank with the total return of equity of 11,5%, i,e, the return of assets of 1,9%.

The generation of the profit in the second quarter of 2018, in relation to the same period of the previous year, was also impacted by the decrease of other income in the amount of RSD 416,1 million and the increase in other expenses in the amount of RSD 125,0 million. The income based on won litigation from the same period last year, in the amount of RSD 563 million, to the highest extent, contributed to the difference in the profit between the two periods. Also, the net expenses based on the financial assets impairment were generated in the amount of RSD 35,2 million, which is different from the same period of the last year when the income of RSD 227,3 million was generated. In terms of the positive effects, there is also the growth in the net profit based on the derecognition of the financial instruments at fair value in the amount of RSD 34,8 million and the rise in the net profit based on change in financial instrument fair value in the amount of RSD 24,9 million.

Due to the growth in the operation volume, and a minor change in the number of the employees in the first six months of 2018, the assets per employee increased from RSD 131,6 million (31 December 2017) to RSD 135,5 million at the end of the second quarter of 2018.

At the end of the second quarter of the current year, the Cost income ratio (CIR) amounts to 59,33%, whereas at the end of 2017 it amounted to 61,80%.

5.1. Retail Business

In the second quarter, the retail business continued its positive trends from the previous period and, based on the majority of the ratios, it generated the exceptional results. We introduced some new products, improved the procedures and technological solutions resulting in higher satisfaction of clients due to better products and prompter loan approval.

Loans

In the first six months of 2018, RSD 22,4 billion loans were disbursed, which is by 13,3% higher in relation to the same period of the last year. The realisation in the first quarter amounted to RSD 10,2 and in the second 12,2 billion indicating the operation growth trend since cca 20% more loans (RSD 2 billion more) were disbursed in the second quarter. In the second quarter, all of the products generated higher disbursement than in the first quarter of 2018.

The disbursement is higher in all segments in relation to the first six months of the previous year.

The highest disbursement increase was generated with **housing loans** (44%) since the current offer was enhanced in relation to the last year's one and customised to client needs. The current offer was additionally improved with the aim of adjustment to the market circumstances. This year, the Bank also approves subsidised loans to professional servicemen, whereby it gradually increases lending to this client segment. In addition, having regard to the present trend of the fall of interest rates on the market, the Bank applies the policy of client retention aimed at maintaining the portfolio quality and amount.

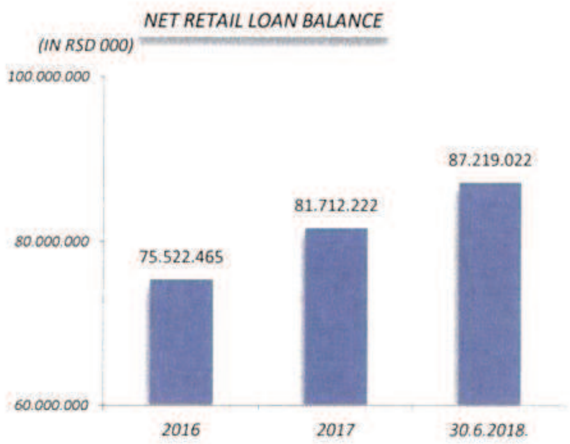
Within the **cash loan** segment, the disbursement growth amounts to 9%. It is the segment with the most distinguished competition, where the offer is based on high amounts and long terms excluding "firm" collaterals and/or security instruments, including favourable interest rates. Also, the offer is increasingly based on personalised offers to specific client groups, especially to clients with higher income. High attention is also paid to loans to pensioners since they account for a significant number of clients. In the second quarter of 2018, the growth in the Bank market share in the cash loan segment was continued and it now amounts to 7,3%.

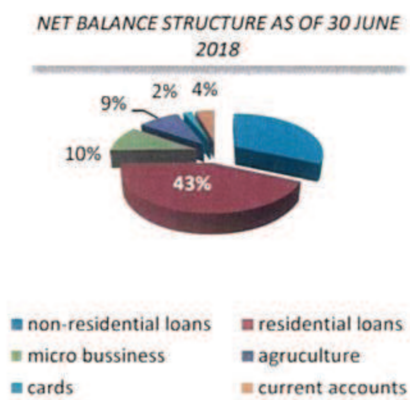
Within **agribusiness**, loan disbursement is higher by 18% in relation to the same period of the previous year. From the beginning of March of this year, new products have been offered, and they were fully affirmed in the second quarter of the current year. The first quarter of this year was, as usual, dominated by the loans offered by the Bank, whereas in the second quarter, the share of the subsidised loans in cooperation with the Ministry of Agriculture, Forestry, and Water Management, local self-governments, and agricultural machinery dealers was significant. In agreement with the Ministry of Agriculture, Forestry, and Water Management, the Bank was actively involved in the promotion of and support to the finance of projects from IPARD funds of the European Union. In the second quarter of 2018, the growth in the Bank market share in the agri-loan segment was continued and it now amounts to 13,4%.

The increase in the disbursement within the **micro business** amounts to 11% thanks to, above all, new products offered from the beginning of this year. This segment covers entrepreneurs and micro enterprises. There are no market data for micro enterprises, whereas the Bank's market share growth continued within the segment of entrepreneurs in the second quarter of 2018 and it now amounts to 9,2%.

In the first half of the year, cash loans were disbursed the most (52%), followed by loans to micro business (25%), farmers (13%), and housing loans (10%). Out of the total disbursed loans in the first half of the year, 64% were approved excluding currency clause, which were mostly cash loans.

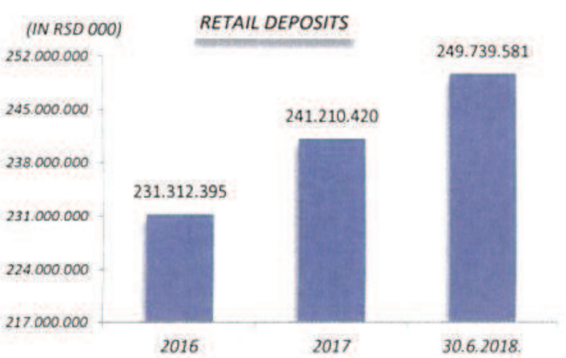
All of the above-mentioned, resulted in the growth in the net balance of the retail loans by RSD 5,5 billion in relation to 31 December 2017. Within the structure of the net balance, the share of the housing loans slightly falls, and the share of other, more profitable products, increases.





Deposits[6]

In the first six months of 2018, the retail deposits grew by RSD 8,5 billion, thereof, the growth in the first quarter amounted to RSD 3,2 billion, and RSD 5,3 billion in the second.



In the first six months of 2018, the growth of EUR 301 million of the total FX retail deposits (excluding micro enterprises) was generated on the market, whereas the Bank, with its growth of EUR 39 million, kept the leading position on the market with the market share of 18.6%.

[6] Deposit position does not include other liabilities and assets received through credit lines

Taking classic FX retail savings into account, it grew by EUR 30 million in the first six months of this year, thereof, EUR 12 million and 18 million in the first and the second quarter, respectively.

* Presented FX savings does not include FX escrow accounts (pensioners) and entrepreneurs

Within the retail FX savings, the share of 12-month and longer term savings decreased and amounts to 33% and the share of a' vista savings increased, and it now amounts to 63%. Savings deposits up to the amount of EUR 50,000 are predominant (based on their number of over 99% and on the amount of 76%).

Following the fall of several years, interest payables to retail FX savings now stagnate (as of 31 December 2017 -0,25%, and as of 30 June 2018, -0,22%). In the following period, further interest payable stagnation is expected. The Bank is further recognised by its clients as the institution of the utmost confidence, therefore, deposits continuingly grow.

Other Products

"Account sets" for micro business were introduced in the offer in late 2017, and they were fully affirmed in 2018 (cca 6,000 clients opened their "set account" for the first six months). "Account sets" for private individuals are further winning the market, for the first six months in 2018, cca 53,000 "set accounts" were opened. The operation digitalisation is continued, a new product "Kom4Pay" - payment through Internet for e-banking users - was introduced. Cooperation with "RIA Money Transfer" (money transfer) was set up.

Business Network

The operation within the retail segment is made at 204 sub-branches, whereby we are a leader on the market in terms of the market cover and client availability. 270 ATMS and cca 13,000 pos terminals are available to our clients, based on which we are also one of the leaders on the market. Having regard to client needs, the Bank continued the activities of improving user experience enhancing the appearance of its sub-branches, moving to new premises, adjusting business hours, etc.

Profitability

Due to all taken business activities, the retail business generated total net interest and fee income in the amount of RSD 4,806 million which is 9% growth in relation to the same period of the previous year.

5.2. Corporate Business

Market - Basic Tendencies

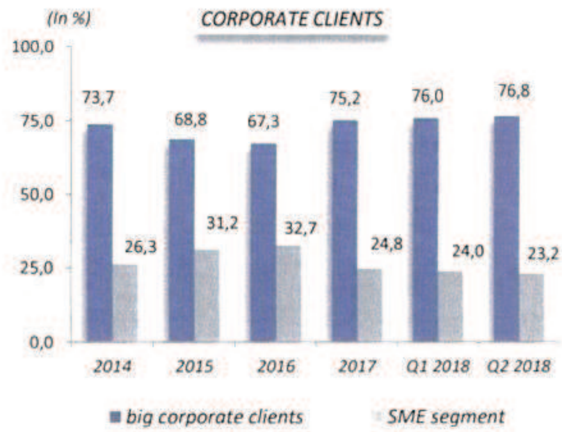
In the second quarter of 2018, the trend of the decrease of RSD interest rate continued due to the fall in the key interest rate as well as decrease in interest rates of loans with currency sign.

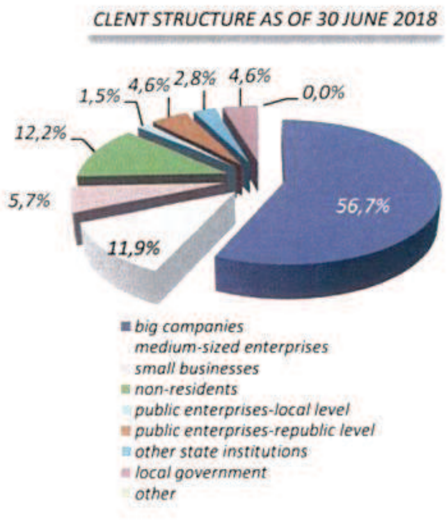
The standards of banks for newly approved loans to corporate clients, which were mitigated in 2017, also remained unchanged in the second quarter of 2018, above all, for small and medium enterprises, and, to a lower extent, for large enterprises. In terms of tenor and currency, standard mitigation is present with both short- and long-term RSD lending to corporate clients, as well as short-term FX lending to corporate clients. Banks also demonstrate increased willingness to assume risks in lending to corporate clients (especially in terms of loan collateralisation).

In the second quarter of 2018, following an initial fall, an increased demand for loans by corporate clients was noticed in May. At the level of the banking sector, the level of gross loans is lower in relation to the end of 2017 (in total, there was a fall with companies and public companies by 0,3% i,e, RSD 3,8 billion).[7]

Loans[8]

The disbursement of newly approved loans in 2018 is higher by RSD 5,0 billion in relation to the same period of 2017, by RSD 1,6 billion within the segment of Large Corporate Clients and RSD 3,4 billion within the SME segment. There was a growth in the share of the large corporate clients in the Bank portfolio from 75,2% (at the end of 2017) to 76,8% due to the increase in the disbursement of loans within this segment.





Interest rate to loans indexed in EUR is still significantly lower in relation to loans in RSD which was, in the conditions of the stable exchange rate, a decisive market factor relating to higher demand for FX loans in relation to RSD loans. Accordingly, the share of RSD loans in the portfolio at the end of the second quarter of 2018 remained at a low level of only 10,2%.

[7] NBS, Consolidated Balance of the Banking Sector, May 2018

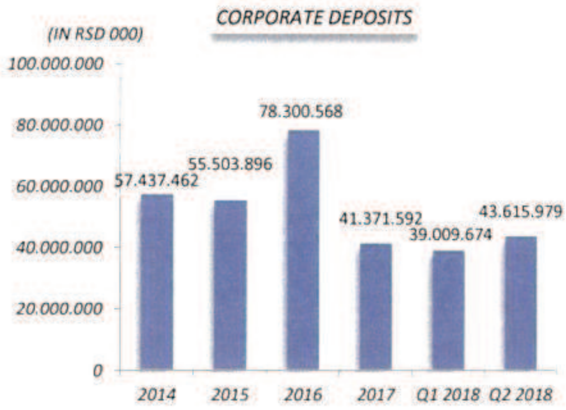
[8] Position of loans and deposits does not include other placements

The fall in interest income in relation to the same period of the previous year is mostly conditioned with the significant interest rate fall, whereby there was no significant transfer of loans from the category of performing loans (PL) to the category of non-performing loans (NPL).

In terms of competition, during the second quarter of 2018, the most active were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, Societe Generale Banka a.d. Beograd, including occasional actions on the market by the following banks: ProCredit a.d. Beograd and Erste banka a.d. Novi Sad. More flexible approach is noticeable with all competitors (interest rates, maturities, requested security instruments) in loan approval.

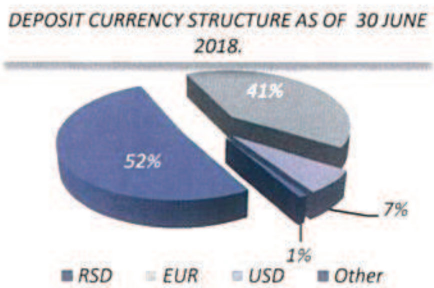
Deposits [9]

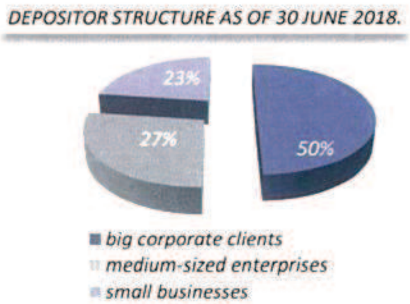
A high share of the transaction deposits of 71% of the total corporate deposits results in lower interest expenses and positively impacts the Bank result. At the end of 2017, RSD 11,2 billion deposits of micro clients were transferred from the corporate to the retail.



In 2018, the corporate deposit amount was also impacted by the Bank decision that micro client deposits are, as of 01 January 2018, recorded within the retail deposits.

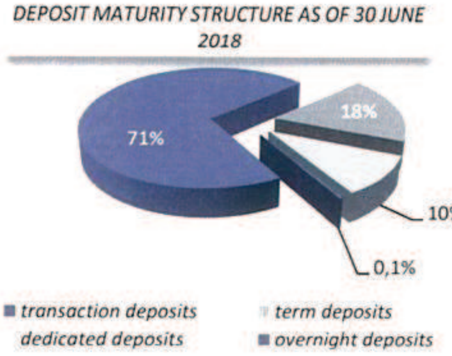
Note: the corporate deposit amount as of 31 December 2016 was impacted by a single deposit.

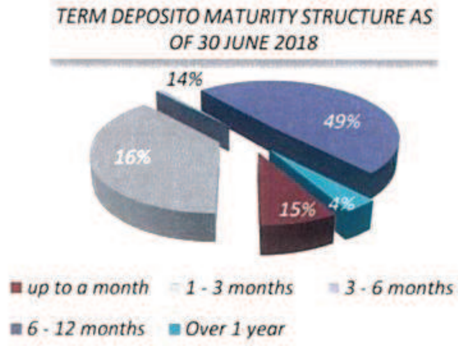




Note: Deposit structure presentation was made based on the internal client segmentation

[9] Deposit position does not include other liabilities and assets received through credit lines





5.3. Asset Management - Treasury

The activities of the Treasury business function were focused to the active assets and liquidity management by ensuring smooth operation of the Bank and its clients and meeting all regulatory requirements.

During the first half of 2018, the trend of decreasing the National Bank of Serbia Key Interest Rate (KIR) continued on two occasions, from 3,5% to current 3,0%, which resulted in the further interest rate fall and continuation of the trend of the fall of the yield to government securities. International markets are further characterised by negative interest rates to EUR and CHF which was, having regard to available assets, a very significant challenge in the liquidity management. The Fed (U,S, Federal Reserves) was continuingly increasing the key interest rate to USD which currently amounts to 2,0%, thereby creating a significant difference in relation to the European currencies. Until the year end, further increase in the key interest rate is expected.

In 2018, the Bank liquidity position was very stable. During the first half of 2018, the generated RSD statutory reserve was 100,1%, and the generated FX statutory reserve was 100,2%, whereas remaining liquid assets were predominantly placed in the Republic of Serbia government securities, in seven-day reverse REPO operations, overnight deposits with the National Bank of Serbia, as well as in short-term borrowings on the interbank market.

The Bank participated in 18 out of total of 31 held primary auctions of the treasury securities, in 11 auctions of RSD securities out of 18 held in total, and in 7 auctions of securities denominated in EUR out of total 13 held auctions. In addition, having concluded 79 transactions, in the first half of 2018, the Bank was a significant participant on the secondary market of the Republic of Serbia treasury securities. Also, at the end of June, the Bank participated in the first primary auction of the Republic of Srpska Eurobonds, thereby it additionally increased and dispersed its securities portfolio.

All of the above-mentioned activities resulted in the generation of the income above the figures defined in the plan.

The Treasury function strategy in the next period will be prudent use of liquid assets in risk free and low risk financial instruments, transfer price methodology improvement, and common activity of expanding deposit client base aimed at collecting new sources of assets.

6. BALANCE SHEET AS OF 30 JUNE 2018

6.1. Bank Assets as of 30 June 2018

(In 000 RSD)

NO,	BALANCE SHEET POSITION DESCRIPTION	30 June 2018	31 December 2017	INDEX
1	2	3	4	5=3/4
1	Cash and assets with central bank	54,170,572	49,840,887	108,7
2	Pledged funds	-	-	-
3	Claims based on derivatives	-	-	-
4	Securities	129,375,428	117,288,767	110,3
5	Loans and claims from banks and other financial organisations	15,321,198	29,543,789	51,9
6	Loans and claims from customers	162,578,939	153,897,367	105,6
7	Changes in fair value of hedged items	-	-	-
8	Claims based on derivatives intended for hedging	-	-	-
9	Investments in affiliates and joint ventures	-	-	-
10	Investments in subsidiaries	2,611,859	2,611,859	100,0
11	Intangible assets	424,268	460,263	92,2
12	Real estate, plant, and equipment	5,552,148	5,655,248	98,2
13	Investment real estate	1,922,509	1,988,608	96,7
14	Current tax assets	-	-	-
15	Deferred tax assets	1,404,479	857,096	163,9
16	Non-current assets available for sale and assets from discontinued operations	241,148	241,148	100,0
17	Other assets	6,949,166	6,798,506	102,2
	TOTAL ASSETS(from 1 to 17)	**380,551,714**	**369,183,538**	103,1

The Bank balance sheet assets increased by RSD 11,368,2 million i,e, 3,1% at the end of the second quarter. The structure of presented balance sheet positions is dominated by the increase in securities, which increased during the first six months 2018 by RSD 12,086,7 million i,e, 10,%. The highest part (exceeding 86%) of the respective growth is the result in the increase in the securities available for sale - RSD bonds of the Republic of Serbia (increase by RSD 10,440,1 million).

Loans and claims from banks and customers (based on the new balance sheet scheme) increased by RSD 8,681,6 million i,e, 5,6% whereas the loans and claims from banks and other financial organisations decreased by RSD 14,222,6 million. As of 30 June 2018, the total loans and claims from customers and banks amount to RSD 177,900,1 million, which accounts for 46,7% of the total balance sheet assets.

During the first six months of the current year, cash and assets with central bank position increased in the amount of RSD 4,329,7 million i,e, by 8,7%. The increase in the above-mentioned position was mostly caused by the increase in the giro account balance in the respective period by RSD 5,653,5 million, FX cash in hand decreased by RSD 1,022,8 million and dinar cash in hand decreased by RSD 489,6 million. Other cash positions (FX statutory reserve and other FX cash) increased by RSD 188,6 million.

6.2. Bank Liabilities as of 30 June 2018

(In 000 RSD)

NO,	BALANCE SHEET POSITION DESCRIPTION	30 June 2018	31 December 2017	INDEX
1	2	3	4	5=3/4
1	Liabilities based on derivatives	-	7,845	-
2	Deposits and other financial liabilities to banks, other financial organisations, and central bank	4,572,328	4,532,505	100,9
3	Deposits and other financial liabilities to other customers	300,439,631	292,471,640	102,7
4	Liabilities based on derivatives intended for hedging	-	-	-
5	Changes in fair value of hedged items	-	-	-
6	Liabilities based on securities	-	-	-
7	Subordinated liabilities	-	-	-
8	Provisions	1,493,303	1,368,051	109,2
9	Liabilities based on assets available for sale and assets from discontinued operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	598,524	-	-
12	Other liabilities	10,373,577	7,543,442	137,5
	TOTAL LIABILITIES (from P 1 to P 12)	**317,477,363**	**305,923,483**	103,8
	EQUITY			-
13	Share capital	40,034,550	40,034,550	100,0
14	Own shares	-	-	-
15	Profit	4,499,749	8,137,249	55,3
16	Loss	-	-	-
17	Reserves	18,540,052	15,088,256	122,9
18	Unrealised losses	-	-	-
19	Non-controlling interests	-	-	-
20	**TOTAL EQUITY (from 13 to 19)**	**63,074,351**	**63,260,055**	99,7
	TOTAL LIABILITIES (from P 1 to P 19)	**380,551,714**	**369,183,538**	103,1

The total liabilities of the Bank at the end of the second quarter of 2018 amount to RSD 317,477,4 million and account for 83,4% of the total liabilities (as of 31 December 2017: 82,9%). At the same time, the total equity amounts to RSD 63,074,4 million and accounts for 16,6% of the total liabilities (as of 31 December 2017 17,1%). The total liabilities increased in relation to the end of the previous year by RSD 11,553,9 million or 3,8% whereas the total equity decreased by RSD 185,7 million i,e, 0,3%.

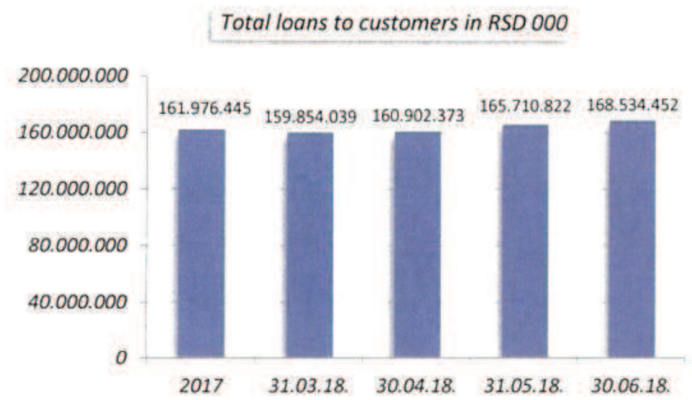
Deposit and other financial liabilities to customers position increased in the reporting period from RSD 7,968,0 million or 2,7% whereas the deposits and other financial liabilities to bank position increased in relation to the end of the previous year by RSD 39,8 million or 0,9%.
Other liabilities position increased by RSD 2,830,1 million or 37,5%.

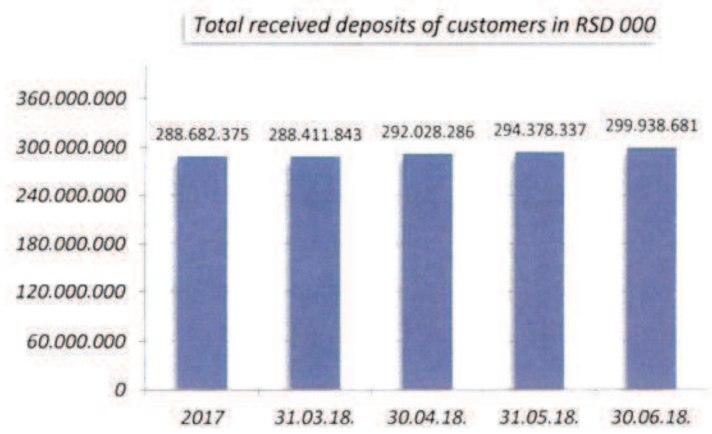
During the first half of 2018, the provisions position generated increase in the amount of RSD 125,3 million due to the increase in provisions for liabilities and provisions for losses on the off-balance assets.

During the first half of 2018, international credit line decrease continued in the net equivalent of RSD 3,267,3 million i,e, 44,2%, thus, the balance of RSD equivalent of respective liabilities, as of 30 June 2018, amounts to RSD 4,125,0 million.

Within the off-balance assets structure, the total deposits and other financial liabilities to banks and customers amount to RSD 305,012,0 million, accounting for 80,1% of the total on-balance assets, whereby there is an increase in relation to the end of the previous year of RSD 8,007,8 million or 2,7%.

6.3. Loans to Customers and Customer Deposits as of 30 June 2018





The most significant balance sheet assets category, loans to clients (excluding other placements and claims) increased by RSD 6,558.0 million. The level of approved loans to clients is, at the end of the second quarter of 2018, under the significant impact of retail loans, which, at the end of the second quarter of 2018, reached the amount of RSD 87,219.0 million, which is the growth of 6.7%, whereas the corporate loans reached the value of RSD 75,002.6 million which is the growth of 4.6%.

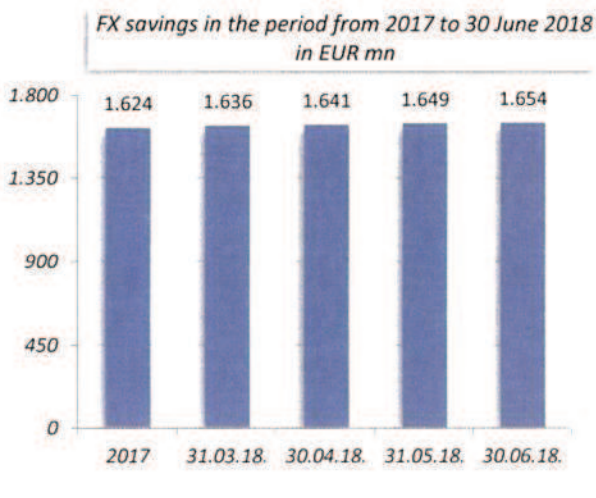
The total loans to banks, other financial organisations, and customers, as of 30 June 2018, amount to RSD 168,534.5 million, and they increased in relation to the end of the previous year by 4.0%.

(In 000 RSD)

NO,	DESCRIPTION	BALANCE AS OF 30 JUNE 2018	BALANCE AS OF 31 DECEMBER 2017	INDEX
1	2	3	4	5= (3:4)*100
I	*LOANS TO CUSTOMERS (1+2+3)*	168,534,452	161,976,445	104,0
1	Corporate	75,002,636	71,725,704	104,6
2	Retail	87,219,022	81,712,222	106,7
3	Banks and financial organisations	6,312,794	8,538,519	73,9
II	*DEPOSITS RECEIVED FROM CUSTOMERS (1+2+3)*	299,938,681	288,682,375	103,9
1	Corporate	43,615,979	41,371,592	105,4
2	Retail	249,739,581	241,210,420	103,5
3	Banks and financial organisations	6,583,121	6,100,363	107,9

NOTE:
- loans and received deposits are presented based on the above balance sheet scheme
- as of 01 January 2018, client deposits were transferred from the corporate business function to the retail business function, due to which the data published in the Annual Report differ - the adjustment was made for the purpose of the comparability of the data from 2017 to those from 2018

In the first half of 2018, the change in deposits of banks, other financial organisations, and customers (excluding other liabilities and credit lines) is the result of the increase in retail deposits, corporate deposits, and deposits of banks and other financial organisations. In the respective period, the retail deposits increased in the equivalent of RSD 8,529,2 million i,e, 3,5%, corporate deposits increased in the equivalent of RSD 2,244,4 million or 5,4%, whereas the deposits of banks and other financial organisations increased in the equivalent of RSD 482,8 million i,e, 7,9%.



Enjoying the reputation of a safe and stable bank on the Serbian market, in the respective period, the Bank managed to increase FX savings deposits by EUR 30.4 million or 1.9%. Notwithstanding the decrease in interest payables of both the banking sector and the Bank, the Bank's FX savings increased during the first two quarters of 2018 and reached the sum of EUR 1,654.3 million.

The confidence of savers enabled the Bank to keep the leading position within the Republic of Serbia banking sector in terms of the volume of collected FX savings, image, and recognition.

6.4. Off-balance Items in 2018

(In 000 RSD)

NO.	DESCRIPTION	BALANCE AS OF 30 June 2018	BALANCE AS OF 31 December 2017	INDEX
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS OF BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES	4,233,538	4,226,654	100,2
2	GRANTED GUARANTEES AND OTHER WARRANTIES	6,546,344	7,897,227	82,9
3	ASSUMED IRREVOCABLE COMMITMENTS	31,429,277	27,044,199	116,2
4	DERIVATIVES	0	592,364	0,0
5	OTHER OFF-BALANCE ITEMS	426,032,466	434,668,336	98,0
	TOTAL	**468,241,625**	**474,428,779**	98,7

During the second quarter of 2018, total off-balance assets of the Bank increased by RSD 6,187,2 million in relation to the end of the previous year.

Granted guarantees and other warranties decreased by RSD 1,350,9 million in relation to the end of the previous year predominantly due to the decrease in issued performance bonds.

As of 30 June 2018, the assumed irrevocable commitments total RSD 31,429,3 million which is the increase by RSD 4,385,1 million or 16,2% in relation to the end of the previous year predominantly due to the increase in assumed irrevocable commitments for non-drawn loans and placements.

Contrary to the end of 2017, at the end of the second quarter of 2018, the off-balance records did not include derivatives intended for trading at agreed value.

Other off-balance items decreased by RSD 8,635,9 million i,e, by 2,0% (change in security instruments and funds recorded in the off-balance items).

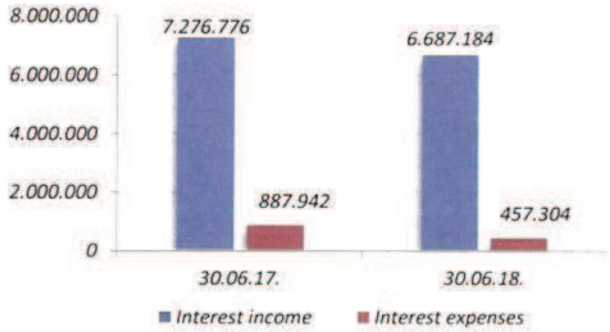
7. PROFIT AND LOSS STATEMENT FOR THE PERIOD FROM 01 JANUARY TO 30 JUNE 2018

(In 000 RSD)

NO.	BALANCE SHEET POSITION DESCRIPTION	30 June 2018	30 June 2017	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1	Interest income	6,687,184	7,276,776	91.9
1.2	Interest expenses	457,304	887,942	51.5
1	**Net interest income/expenses**	**6,229,880**	**6,388,834**	97.5
2.1	Fee and commission income	3,433,346	3,193,406	107.5
2.2	Fee and commission expenses	880,328	730,628	120.5
2	**Net fee and commission income/expenses**	**2,553,018**	**2,462,778**	103.7
3	Net gain/loss based on change in financial instrument fair value	48,751	23,868	204.3
4	Net gain/loss based on change in financial instrument reclassification	-	-	-
5	Net gain/loss based on the derecognition of financial instruments at fair value	94,325	59,500	158.5
6	Net hedging gain/loss	-	-	-
7	Net exchange rate gains/losses and gains/losses of effects of agreed currency clause	-1,060	-17	-
8	Net gains/losses based on impairment of financial assets which are not at fair value through P&L	-35,188	227,327	-
9	Net gain/loss based on the derecognition of FI at amortisation value	-	-	-
10	Net gain/loss based on derecognition of investments in affiliates and joint ventures	-	306	-
11	Other operating income	77,218	87,239	88.5
12	**TOTAL NET OPERATING INCOME**	**8,966,944**	**9,249,835**	96.9
13	**TOTAL NET OPERATING EXPENSES**			
14	Costs of salaries, benefits, and other personnel expenses	2,202,516	2,220,023	99.2
15	Amortisation costs	284,092	291,237	97.5
16	Other income	206,115	622,218	33.1
17	Other expenses	3,065,702	2,940,631	104.3
18	**PRE-TAX PROFIT**	**3,620,749**	**4,420,162**	81.9
19	**PRE-TAX LOSS**			
20	Profit tax	-	-	-
21	Profit based on deferred taxes	-	1,235,813	-
22	Loss based on deferred taxes	-	-	-
23	**PROFIT AFTER TAX**	**3,620,749**	**5,655,975**	64.0
24	**LOSS AFTER TAX**			-
25	Net profit of discontinued operations			-
26	Net loss of discontinued operations			-
27	**RESULT OF THE PERIOD - PROFIT**	**3,620,749**	**5,655,975**	64.0
28	**RESULT OF THE PERIOD - LOSS**			
29	Profit belonging to the parent entity			
30	Profit belonging to non-controlling owners			
31	Loss belonging to the parent entity			
32	Loss belonging to non-controlling owners			
33	Earning per share			
34	Basic earning per share			
35	Decreased (diluted) earning per share			

7.1. Interest Income and Expenses

Interest income and expenses in RSD 000



During the first half of 2018, the net interest income of RSD 6,229.9 million was generated, which is the decrease by 2.5% in relation to the same period of the previous year.

In relation to the first half of the previous year, the interest income is lower by RSD 589.6 million or by 8.1% whereas the interest expenses decreased by RSD 430.6 million or 48.5%.

Interest income by lines 2018

Interest expenses by lines in 2018

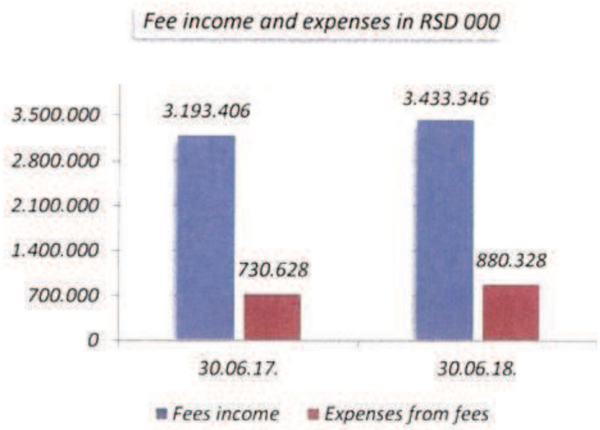
Within the interest income structure, retail interest income has the highest share (RSD 3,234,9 million or 48,4%). Within the interest expenses structure, retail interests to deposits are predominant (RSD 314,9 million or 68,9%) which is mostly the result of the interest expenses to collected FX savings.

Movement of interest margin on total assets in%

	2017	April	May	June
Average active interest rate	3,7	3,5	3,6	3,5
Average passive interest rate	0,4	0,2	0,2	0,2
Average interest margin	3,3	3,3	3,4	3,3

The average interest receivable at the end of the second quarter of 2018 was 3,5%, and the average interest payable was 0,2%, thus, the average interest margin of the Bank amounted to 3,3% in the second quarter of 2018.

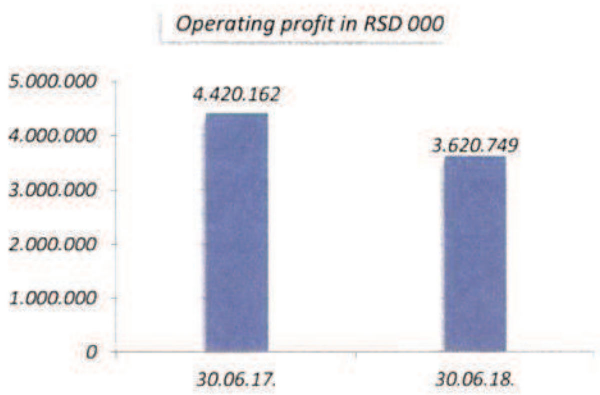
7.2. Fee Income and Expenses



During the first half of 2018, in relation to the same period of the previous year, the generated fee and commission income for banking services are higher by RSD 239.9 million or by 7.5%. At the same time, the fee and commission expenses increased by RSD 149.7 million or by 20.5%.

Net fee and commission income at the end of the second quarter of 2018 amounts to RSD 2,553.0 million and it is by RSD 90.2 million higher in relation to the same period of the previous year.

7.3. Generated Operating Profit



In the period from 01 January to 30 June 2018, operating profit was generated in the amount of RSD 3,620.7 million, which is the decrease by RSD 799.4 million in relation to the same period of the previous year i.e. 18.1%.

One-off income based on won litigation from the previous year, in the amount of RSD 563 million, to the highest extent, contributed to the difference in the profit between the two periods.

In the second quarter of 2018, the generated operating profit provided the Bank with the total return of equity of 11.5%, i.e. the return of average assets of 1.9%.

7.4. Operation Ratios Prescribed in the Bank Law

NO.	DESCRIPTION	PRESCRIBED	30 June 2018	2017
1	CAPITAL ADEQUACY RATIOS (CAPITAL/RISK WEIGHTED ASSETS); * COMBINED BUFFER REQUIREMENT	MIN 8%+cb	29,31%	27,89%
2	RATIO OF INVESTMENT IN ENTITIES WHICH ARE NOT IN THE FINANCIAL SECTOR AND FIXED ASSETS	MAX 60%	13,41%	14,96%
3	LARGE BANK EXPOSURE RATIO	MAX 400%	24,22%	34,96%
4	FX RISK RATIO	MAX 20%	3,14%	4,40%
5	LIQUIDITY RATIO (monthly, last day in month)	MIN 0,8	4,47	4,30

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

The detailed presentation of the major risks and threats the Bank is exposed to in the next period is provided in Chapter Risk Management, Notes to Financial Statements.

9. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PERSONS

As of 30 June 2018, the entities related to the Bank include:

1 Komercijalna banka a,d, Podgorica (since 04 July 2018), Montenegro,
2 Komercijalna banka a,d, Banja Luka, Bosnia and Herzegovina
3 KomBank Invest a,d, Beograd,
4 and a high number of private individuals, pursuant to the provisions of Article 2 of the Bank Law in the part governing the term "persons related to the bank".

The total exposure to the persons related to the Bank as of 30 June 2018 amounted to RSD 575,6 million, which was in relation to the capital of RSD 55,756,5 million 1,0% (maximum value of the total loans with all of the persons related to the Bank based on the Bank Law amounts to 25% of capital).

The highest part of the exposure to the persons related to the Bank as of 30 June 2018 is the amount of RSD 413,3 million i,e, 0,7% of the Bank capital, and it relates to the loans to company KomBank INVEST ad Beograd.

The presentation in detail of the Bank relation with the related entities is presented in item Related Entities/Subsidiaries, Notes to Financial Statements.

10. DESCRIPTION OF ALL IMPORTANT EVENTS

Following the end of 2017, during the first half of 2018, out of important business events, holding of four Bank General Meeting sessions on 29 January 2018, 14 March 2018, 26 April 2018, and 30 May 2018 is singled out.

At the Bank General Meeting, held on 29 January 2018, the following decisions were made:

1. Decision on Dismissal and Nomination of Member of Komercijalna Banka ad Beograd Board of Directors,
2. Decision on Dismissal and Nomination of Chairperson of Komercijalna Banka ad Beograd Board of Directors,
3. Decision on Adopting Komercijalna bank ad Beograd Strategy and Business Plan 2018-2020.

At the Bank General Meeting, held on 14 March 2018, the following decisions were made:

1. Decision on Dismissal and Election of Komercijalna Banka ad Beograd General Meeting Chairperson,
2. Decision on Amending Decision on Dismissal and Nomination of Chairperson of Komercijalna Banka ad Beograd Board of Directors.

At the Bank General Meeting, held on 26 April 2018, the following decisions were made:

1. Decision on Adopting Komercijalna banka ad Beograd Annual Operation Report and Ordinary Financial Statements Including Opinion of External Auditor for 2017
2. Decision on Adopting Komercijalna banka ad Beograd Group Annual Operation Report and Consolidated Financial Statements Including Opinion of External Auditor for 2017
3. Decision on Profit Distribution for 2017 and Retained Earnings from Previous years,
4. Decision - Information in connection with Article 77 of the Bank Law
5. Decision - Information in accordance with Article 78 of the Bank Law
6. Decision on mandatory buying of 6 shares of SWIFT
7. Decision on Determining Remuneration to the Bank General Meeting Chairperson.

At the Bank General Meeting, held on 30 May 2018, the following decisions were made:

1. Decision on Dismissal and Nomination of Member of Komercijalna Banka ad Beograd Board of Directors.

Description of the event following the balance sheet is presented in the item of the same name of the Notes to Financial Statements for the Second Quarter of 2018.

11. BASIC DATA ON THE BUSINESS PLAN IMPLEMENTATION FOR 2018

The Bank Strategy and Business Plan were, in the first six months of 2018, implemented within the following macroeconomic business conditions, whereby, the following are singled out:

- GDP growth of 4,6% in the first quarter of 2018 in relation to the same period of the previous year (Statistical Office of the Republic of Serbia[10]), the plan for the whole 2018 is the GDP growth of 3,5%[11],
- stable movement of dinar exchange rate around the level of 118 dinars to euro (planned dinar exchange rate to euro at the end of he current year: EUR 1 = RSD 122,00 (KB), and as of 30 June 2018, the following was achieved: EUR 1 = RSD 118,06),

10 Quarterly gross domestic product in the Republic of Serbia, I quarter of 2018, Press Release, SORS
11 Fiscal Strategy for 2018, including projections for 2019 and 2020. p. 17

- inflation rate (rate yoy, June 2018/June 2017) amounts to 2,3%, it has the growth trend, and it is currently within the limits of the target rate for 2018 (3,0%±1,5 p,p,).

According to the data by the SORS, in the first quarter of 2018, the economic activity growth yoy of 4,6% was generated. All of the manufacturing sectors provided a positive contribution to the economic growth. The major holders of the economic growth included service sector and industry, including increasingly significant contribution by construction. On the consumption side, the most significant contribution was provided by personal consumption of households and investments[12].

The total foreign trade exchange in the period January-May 2018 amounted to EUR 15,1 billion[13] (goods in the value of EUR 6,5 billion were exported, and goods in the value of EUR 6,8 billion were imported) which is the growth of 9,3 yoy.
The total value of export by 15 top exporters in the first half of 2018 amounted to EUR 2,3 billion[14]. With the EU countries, two thirds of the foreign trade exchange is still performed.
In May 2018, the NBS foreign exchange reserves amounted to EUR 10,88[15] billion and increased by EUR 1,391 billion in relation to the same period of 2017.
In the period January-May 2018, at the level of the general government, the fiscal surplus in the amount of RSD 9,3 billion was generated[16]. At the end of May 2018, the government public debt amounted to EUR 24,1 billion [17] i,e, 59,9% of the GDP.
During the first five months of 2018, the net inflow of foreign direct investments (FDI) reached the amount of EUR 1,1 billion[18] which is the growth of 13,6% yoy, whereby the projection for the whole year amounts to EUR 2,6 billion, Investments are mostly directed to the export oriented sectors.
The mitigation of the NBS monetary policy since mid-2013 up to date has resulted in the fall in interest rates to RSD corporate and retail loans. Interest rates to newly approved loans in May 2018 amounted to 4,6% and 10,3% to corporate and retail, respectively[19]. Also, there was a fall in the interest rates to the existing loans which impacted more available funds for both retail and corporate other consumption.
The banks continued the trend of credit activity growth in 2018, too. In May of the current year, the growth of 8,1% yoy was generated, whereby the growth in retail loans amounted to 11,3% yoy, and the growth of corporate loans amounted to 6,3%[20] yoy. Further during the business year, banks' credit activity growth is expected having regard to economic activities, competition among banks, mitigation of the monetary policy and low euro zone interest rates.

12 Current macroeconomic movements, July 2018, RS Ministry of Finance
13 Current macroeconomic movements, July 2018, RS Ministry of Finance
14 Current macroeconomic movements, July 2018, RS Ministry of Finance
15 NBS, Foreign Exchange Reserve Balance
16 Press Release, RS Ministry of Finance, 13 July 2018
17 The RS public debt in the period from 2000 to 31 May 2018, Table 5, RS Ministry of Finance
18 Macroeconomic Movements in Serbia, July 2018, NBS
19 Macroeconomic Movements in Serbia, July 2018, NBS
20 Macroeconomic Movements in Serbia, July 2018, NBS

11.1. Planned and Generated Balance Sheet Values for the Second Quarter of 2018

At the end of the second quarter of 2018, the total Bank on-balance assets amount to RSD 380,551,7 million and, in relation to the planned value for the year end, they are lower by RSD 7,423,7 million i,e, 1,9%.

As of 30 June 2018, investment in securities is above the planned level for the whole 2018 by 17,3%, above all, due to lower corporate credit activity than the planned volume.

Loans to customers at the end of the second quarter of2018 amount to RSD 168,534,5 million. With the aim of achieving the planned volume of loans to customers, it is necessary for the Bank to disburse the funds in the amount of RSD 24,790,6 million i,e, to generate the growth of loans of 14,7%.

During the next two quarters of 2018, it is necessary for the Bank to generate the growth of the total deposits in the amount of RSD 10,468,0 million i,e, 3,5%. The most significant growth is expected in retail deposits, increase of 3,7%.

Other liabilities as of 30 June 2018 are above the annual planned value by 44,9%, thus, the expected decrease on this on-balance position amounts to RSD 5,438,3 million in the following period.

The movement of RSD to EUR exchange rate, appreciation (0,3%), to a certain extent, impacted the gaps of the realised from the planned on-balance figures.

Generated and planned positions of assets and liabilities in the balance sheet as of 30 June 2018 have the following values:

(In RSD mn)

NO,	POSITION	Plan 31 December 2018	Achieved as of 30 June 2018	INDEX
1	2	3	4	5=4/3*100
	ASSETS			
1	Cash and cash equivalents	53,783	54,171	100,7
2	Securities	110,287	129,375	117,3
3	**Loans**	**193,325**	**168,534**	87,2
4	Other assets	30,581	28,471	93,1
5	**TOTAL ASSETS (1+2+3+4)**	**387,975**	**380,552**	98,1
	LIABILITIES			
1	**Deposits**	**310,407**	**299,939**	96,6
2	Other liabilities	12,100	17,539	144,9
3	**Total liabilities (1+2)**	**322,507**	**317,477**	98,4
4	**Total equity**	**65,468**	**63,074**	96,3
5	**TOTAL LIABILITIES (3+4)**	**387,975**	**380,552**	98,1

11.2. Planned and Generated Profit and Loss Statement Values for the Period 01 January-30 June 2018

(In RSD mn)

No.	POSITION	Plan 01 January-30 June 2018	Generated 01 January-30 June 2018	INDEX
1	2	3	4	5=4/3*100
1,1	Interest income	6,556	6,687	102,0
1,2	Interest expenses	-544	-457	84,0
1	**Interest gains (1,1-1,2)**	**6,011**	**6,230**	103,6
2,1	Fee and commission income	3,812	3,433	90,1
2,2	Fee and commission expenses	-789	-880	111,5
2	**Fee and commission gains (2,1 -2,2)**	**3,023**	**2,553**	84,5
3	Net exchange rate differences and value change (FX clause)	0	-1	-
4	Net other operating income and expenses	67	85	126,8
5	Net expenses/income based on impairment of financial assets which are not at fair value through P&L	-308	-35	11,4
6	Operating expenses	-5,478	-5,211	95,1
7	**OPERATING PROFIT**	**3,316**	**3,621**	109,2

With profit and loss positions, the significant deviation is recorded with net expenses based on the impairment of financial assets at fair value through profit and loss (net expense in the amount of RSD 35,2 million was generated whereas net expense up to RSD 307,8 million was planned).
Realised net interest gain is higher than the planned value by RSD 218,4 million.
Generated net fee and commission gain, during the first half of 2018, is lower in relation to the plan by RSD 469,7 million.
In the same period, operating expenses amount to RSD 5,210,8 million and they are lower than the planned by RSD 266,7 million as the result of operating expenses rationalisation.

Due to the realisation of lower expenses based on the impairment of the financial assets at fair value through profit and loss, as well as due to the decrease in the operating expenses in relation to the plan in the first half of 2018, the Bank generated the pre-tax profit in the amount of RSD 3,620,7 million, which is 9,2% above the planned value.

Signed on behalf of Komercijalna banka ad Beograd

Controlling and Planning Division Director — Member of the Bank's Executive Board

Д. Романдић

Dragana Romandić — Miroslav Perić

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД БЕОГРАД 4

BALANCE SHEET

on 30.06.2018.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	54.170.572	49.840.887
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	-	-
Securities	0004	129.375.428	117.288.767
Loans and receivables from banks and other financial organisations	0005	15.321.198	29.543.789
Loans and receivables from clients	0006	162.578.939	153.897.367
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	2.611.859	2.611.859
Intangible investments	0011	424.268	460.263
Property, plant and equipment	0012	5.552.148	5.655.248
Investment property	0013	1.922.509	1.988.608
Current tax assets	0014	-	-
Deferred tax assets	0015	1.404.479	857.096
Non-current assets held for sale and discontinued operations	0016	241.148	241.148
Other assets	0017	6.949.166	6.798.506
TOTAL ASSETS (from 0001 to 0017)	0018	380.551.714	369.183.538
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	7.845
Deposits and other liabilities to banks, other financial organisations and central bank	0402	4.572.328	4.532.505
Deposits and other financial liabilities to clients	0403	300.439.631	292.471.640
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.493.303	1.368.051
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	598.524	-
Other liabilities	0412	10.373.577	7.543.442
TOTAL LIABILITIES (from 0401 to 0412)	0413	317.477.363	305.923.483
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	4.499.749	8.137.249
Loss	0417	-	-
Reserves	0418	18.540.052	15.088.256
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	63.074.351	63.260.055
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	0	0
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	380.551.714	369.183.538

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

INCOME STATEMENT

from 01.01.2018 to 30.06.2018

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.-30.06
1	2	3*	4**	5	6
Interest income	1001	3.356.553	6.687.184	3.541.635	7.276.776
Interest expenses	1002	224.891	457.304	408.555	887.942
Net interest gains (1001-1002)	1003	3.131.662	6.229.880	3.133.080	6.388.834
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.817.676	3.433.346	1.684.200	3.193.406
Expenses on fees and commissions	1006	466.218	880.328	386.924	730.628
Net gains from fees and commissions (1005 - 1006)	1007	1.351.458	2.553.018	1.297.276	2.462.778
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	3.769	48.751	2.850	23.868
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 from derecognition of the financial instruments measured at fair value	1013	56.931	94.325	8.782	59.500
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	8.361	-	198	-
Net exchange rate losses and losses on agreed currency clause	1018	-	1.060	-	17
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	-	-	154.552	227.327
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	266.229	35.188	-	-
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-		306
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	38.767	77.218	43.937	87.239
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	4.324.719	8.966.944	4.640.675	9.249.835
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.098.649	2.202.516	1.121.666	2.220.023
Depreciation costs	1029	138.887	284.092	143.974	291.237
Other income	1030	133.445	206.115	39.863	622.218
Other expenses	1031	1.586.725	3.065.702	1.477.568	2.940.631
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	1.633.903	3.620.749	1.937.330	4.420.162
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	-	-	1.235.813	1.235.813
Losses on deferred taxes	1036	-	-	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	1.633.903	3.620.749	3.173.143	5.655.975
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	1.633.903	3.620.749	3.173.143	5.655.975
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	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.

from 01.01.2018. to 30.06.2018.

STATEMENT OF OTHER COMPREHENSIVE RESULT

(in RSD thousand)

POSITION	ADP code	Amount - Current year 01.04.-30.06.	Current year 01.01.-30.06	Previous year 01.04.-30.06.	Previous year 01.01.-30.06
1	2	3	4	5	6
PROFIT FOR THE PERIOD	2001	1.633.903	3.620.749	3.173.143	5.655.975
LOSS FOR THE PERIOD	2002	-		-	-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	-	-	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	181.539	218.132		64.349
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	-	34.725	-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015			-	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	126.491	89.142	263.345	438.729
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	13.371	13.371	-	-
Tax losses relating to other comprehensive income for the period	2028	21.629	32.720	-	-
Total positive other comprehensive income (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	**46.790**	**109.641**	-	-
Total negative comprehensive income 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	-	-	**298.070**	**374.380**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**1.680.693**	**3.730.390**	**2.875.073**	**5.281.595**
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	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.

БЕОГРАД

CASH FLOW STATEMENT

from 01.01.2018 to 30.06.2018

(in RSD thousand)

	POSITION	ADP code	Amount	
			01.01.-30.06.2018.	01.01-30.06.2017
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	11.399.593	12.764.856
1.	Interest	3002	7.576.115	8.787.507
2.	Fees	3003	3.459.497	3.213.312
3.	Other operating income	3004	361.510	760.633
4.	Dividends and profit sharing	3005	2.471	3.404
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	5.925.884	7.237.824
5.	Interest	3007	428.437	950.729
6.	Fees	3008	881.090	732.114
7.	Gross salaries, salary compensations and other personal expenses	3009	1.837.097	2.462.692
8.	Taxes, contributions and other duties charged to income	3010	388.007	426.188
9.	Other operating expenses	3011	2.391.253	2.666.101
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	5.473.709	5.527.032
IV.	**Net cash outflow from operating activities before an 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	17.655.919	19.732.603
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	5.909.887	11.616.405
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	-	8.116.198
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	11.746.032	-
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	425.173	21.412.347
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	-
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	418.108	-
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025		21.412.347
20.	Decrease in other financial liabilities	3026	7.065	-
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	22.704.455	3.847.288
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	22.704.455	3.847.288
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
B.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	28.666.302	29.780.580
1.	Investment in investment securities	3035	28.666.302	29.661.121
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	577
4.	Sale of investment property	3038	-	118.882
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	41.304.810	36.602.005
6.	Investment into investment securities	3041	41.105.971	36.491.652
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	195.531	110.353
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	3.308	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	12.638.508	6.821.425
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	42.768.545	44.400.229
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	42.768.545	44.400.229
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	45.969.979	47.105.308
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	45.969.979	47.105.308
10.	Issuance of 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	3.201.434	2.705.079
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	100.490.359	106.678.268
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	93.625.846	112.357.484
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	6.864.513	0
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	5.679.216
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	26.314.898	34.945.610
I.	**EXCHANGE RATE GAINS**	3068	22.927	25.003
J.	**EXCHANGE RATE LOSSES**	3069		-
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	33.202.338	29.291.397

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2018 to 30.06.2018

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (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 (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 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 at 1 January of the previous year	4001	17 191 466	4033		4065	22 843 084	4097	18 791 828	4129	4 316 496	4147	5 087	4165	349 698	4203	8 063 183	4241		4285	55 424 302	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243					
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244					
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245					
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17 191 466	4038	0	4070	22 843 084	4102	18 791 828	4134	4 316 496	4152	5 087	4170	349 698	4208	8 063 183	4246		4286	55 424 302		
Total positive other comprehensive income for the period									4135		4153	1 549			x		4247					
Total negative other comprehensive income for the period									4136	286 237	4154				x		4248					
Profit for the current year													4171	8 117 368	x		4249					
Loss for the current year															4209		4250					
Transfer from provisions to retained earnings due to provisions reversal – increase													4172		4210		4251					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4173		4211		4252					
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103						4174		4212		4253					
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104						4175		4213		4254					
Distribution of profit – increase	4009		4041		4073		4105						4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106	7 730 293					4177	332 890	4215	8 063 183	4256					
Dividend payments	4011		4043		4075		4107						4178	16 808	4216		4257					
Other – increase	4012		4044		4076		4108						4179	19 881	4217		4258					
Other – decrease	4013		4045		4077		4109						4180		4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	0					4181	0	4219	0	4260					
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	7 730 293					4182	329 817	4220	8 063 183	4261					
Balance as at 30 June of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	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	4221	0	4262		4287	63 260 055	4293	
Opening balance as at 1 January 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	4222	0	4263		4288	63 260 055	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139	176 617	4157		4185		4223		4264					
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158	3 538	4186	1 161 693	4224		4265					
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266					
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267					
Adjusted opening balance as at 1 January of the current year (No 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	4227	0	4268		4289	62 278 517	4295	
Total positive other comprehensive income for the period									4144	109 641	4162				x		4269					
Total negative other comprehensive income for the period									4145		4163				x		4270					
Profit for the current year													4190	3 620 749	x		4271					
Loss for the current year															4228		4272					
Transfer from provisions to retained earnings due to provisions reversal – increase													4191		4229		4273					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4192		4230		4274					
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119						4193		4231		4275					
Transactions with owners recognized directly in equity – decrease	4024		4056		4088		4120						4194		4232		4276					
Distribution of profit – increase	4025		4057		4089		4121	3 162 000					4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196	3 162 000	4234		4278					
Dividend payments	4027		4059		4091		4123						4197	2 535 916	4235		4279					
Other – increase	4028		4060		4092		4124						4198		4236		4280					
Other – decrease	4029		4061		4093		4125						4199	398 640	4237		4281					
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	3 162 000					4200	0	4238	0	4282					
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0					4201	6 098 556	4239	0	4283					
Balance as at 30 June of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17 191 466	4064	0	4096	22 843 084	4128	14 223 535	4146	4 316 517	4164	0	4202	4 499 749	4240	0	4284		4290	63 074 351	4296	

КОМЕРЦИЈАЛНА БАНКА
АД Београд

NOTES

TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER 2018

Belgrade, August 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 30th June2018, 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 30th June2018, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centres, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of 30th June2018, the Bank has 2,809 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 Rulebook on the content, form and manner of publishing annual, semi-annual and quarterly reports of public companies (RS Offical Gazette, number 14/2012, 5/2015 and 24/2017), 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 are 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 30th June2018, 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

	30.06.2018.		31.12.2017.	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	54,170,572	14.23	49,840,887	13.50
Securities	129,375,428	34.00	117,288,767	31.77
Loans and receivables due from banks and other financial organizations	15,321,198	4.03	29,543,789	8.00
Loans and receivables from customers'	162,578,939	42.72	153,897,367	41.69
Investments in subsidiaries	2,611,859	0.69	2,611,859	0.71
Intangible assets	424,268	0.11	460,263	0.12
Property, plant and equipment	5,552,148	1.46	5,655,248	1.53
Investment property	1,922,509	0.51	1,988,608	0.54
Current tax assets	1,404,479	0.37	857,096	0.23
Deferred tax assets				
Non-current assets held for sale and assets from discontinued operations	241,148	0.06	241,148	0.07
Other assets	6,949,166	1.82	6,798,506	1.84
TOTAL ASSETS	**380,551,714**	**100.00**	**369,183,538**	**100.00**

In thousand RSD

	30.06.2018.		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	4,572,328	1.20	4,532,505	1.23
Deposits and other fin. liabilities due to other customers	300,439,631	78.95	292,471,640	79.22
Provisions	1,493,303	0.39	1,368,051	0.37
Deferred tax liabilities	598,524	0.16	-	-
Other liabilities	10,373,577	2.73	7,543,442	2.04
Equity	63,074,351	16.57	63,260,055	17.14
TOTAL LIABILITIES	**380,551,714**	**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

	30.06.2018.	30.06.2017.
INCOME	Total	Total
Interest income	6,687,184	7,276,776
Fee and commission income	3,433,346	3,193,406
Net gain on the basis of changes in the fair value of financial instruments	48,751	23,868
Net gain on the expiry of recognition of financial instruments that are valued at fair value	94,325	59,500
Net income from impairment of financial assets that are not valued at fair value through profit and loss	-	227,327
Net gain on the expiry of investments in subsidiaries and joint ventures	-	306
Other operating income	77,218	87,239
Other income	206,115	622,218

EXPENSES	Total	Total
Interest expense	457,304	887,942
Fee and commission expense	880,328	730,628
Net expense from exchange rate differentials and effects of agreed currency clause	1,060	17
Cost of salaries, allowances and other personnel expenses	2,202,516	2,220,023
Depreciation cost	284,092	291,237
Other expenses	3,065,702	2,940,631

Profit/loss before tax	**3,620,749**	**4,420,162**
Profit from deferred tax	-	1,235,813
Result for the period (profit/loss)	**3,620,749**	**5,655,975**

CASH FLOW STATEMENT

In thousand RSD

Item	30.06.2018. Total	30.06.2017. Total
Cash inflows from operating activities	**11,399,593**	**12,764,856**
Inflow from interest	7,576,115	8,787,507
Inflow from fees	3,459,497	3,213,312
Inflow from other operating activities	361,510	760,633
Inflow from dividends and share in profit	2,471	3,404
Cash outflows from operating activities	**5,925,884**	**7,237,824**
Interest payments	428,437	950,729
Fee payments	881,090	732,114
Payments for gross salaries, allowances and other personnel expenses	1,837,097	2,462,692
Taxes, contributions and other duties charged to income	388,007	426,188
Payments for other operating expenses	2,391,253	2,666,101
Net cash inflow from operating activities before increase or decrease financial assets and financial liabilities	**5,473,709**	**5,527,032**
Decrease in financial assets and increase in financial liabilities	**17,655,919**	**19,732,603**
Decrease in loans and other receivables from banks and other financial organizations, central banks and customers	5,909,887	11,616,405
Decrease in receivables based on securities and other financial assets not intended for investment	-	8,116,198
Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers	11,746,032	-
Increase in lending and decrease in received deposits and other liabilities	**425,173**	**21,412,347**
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	418,108	-
Decrease in deposits and other financial liabilities to banks and other financial organizations, central banks and customers	-	21,412,347
Decrease in other financial liabilities	7,065	-

	30.06.2018.	30.06.2017.
Item	Total	Total
Net inflow of cash from operating activities before profit tax	**22,704,455**	**3,847,288**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	-	-
Paid dividends	-	-
Net inflow of cash from operating activities	**22,704,455**	**3,847,288**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**28,666,302**	**29,780,580**
Inflow from investment securities	28,666,302	29,661,121
Inflow from sales of intangible assets, property, plants and equipment	-	577
Inflow from sale of investment property	-	118,882
Cash outflow from investment activities	**41,304,810**	**36,602,005**
Outflow from investing in investment securities	41,105,971	36,491,652
Outflow for purchase of intangible assets, property, plants and equipment	195,531	110,353
Outflow for purchase of investment property	-	
Outflows from investment activities	3,308	-
		-
Net inflow of cash from investment activities	**-**	**-**
Net outflow of cash from investment activities		
	12,638,508	**6,821,425**
Cash inflow from financing activity		
Inflow from borrowings	**42,768,545**	**44,400,229**
	42,768,545	44,400,229
Cash outflow from financing activity		
Outflow from borrowings	**45,969,979**	**47,105,308**
	45,969,979	47,105,308
Net outflow of cash from financing activity		
	3,201,434	**2,705,079**
Total cash inflow	**100,490,359**	**106,678,268**
Total cash outflow	**93,625,846**	**112,357,484**
Net increase in cash	**6,864,513**	**-**
Net decrease in cash	**-**	**5,679,216**
Cash and cash equivalents at the start of the year	**26,314,898**	**34,945,610**
Exchange rate gains	22,927	25,003
Exchange rate loss	-	-
End of period cash and cash equivalents	**33,202,338**	**29,291,347**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Net interest income in the period January - June 2018 amounted to 6,229,880 thousand dinars and was lower by 158,954 thousand dinars or 2.49% compared to the same period of the previous year, under the influence of falling interest rates. The realized net interest income is higher than the determined by business plan for the first six months of 2018, by RSD 218,448 thousand.

3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period January - June 2018 amounts to 2,553,018 thousand dinars and is higher in relation to the same period of 2017 by 3.66% or 90,240 thousand dinars

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 in 2018, the Bank reported net gain on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 48,751 thousand (bonds of the Republic of Serbia and investment units of the Kombank Investment Fund).

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 94,325 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 1,060 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.

In the period January - June 2018, net expenses were recorded on the basis of the increase in impairment of financial assets and credit risk off-balance sheet items that are not valued at fair value through profit and loss in the amount of RSD 35,188 thousand, while in the same period 2017 net income on this basis in the amount of 227,327 thousand dinars.

3.6. Other Operating Income

In the overall other operating income amounting to RSD 77,218 thousand, income from business operations account for the most important share of 95.43% (same period last year 96.10%), which mainly refer to the income from the lease of real estate in the amount of RSD 38,152 thousand. Other operating income is 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 3,531 thousand are shown as income from dividends at the moment of their collection. Out of total amount of received dividends, RSD 2,935 thousand relates to a dividend received from VISA Inc. USA, while RSD 596 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 2,202,516 thousand are lower by RSD 17,507 thousand or 0.59 % compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 284,092 thousand are lower relative to the same period January – June 2017 by RSD 7,145 thousand or 2.45%.

3.9. Other income

Out of the total other income in the amount of RSD 206,115 thousand, the most significant share of 61.30% have the income from unused provisions for court disputes in the amount of 126,343 thousand dinars as stated in the Not 3.17 (the same period last year 4.09%), as well as other income with the share of 38.34% or 79,023 thousand dinars.

The most prominent position of other income refers to the income from won court dispute as per final verdict, in the name of default interest and court expenses on the basis of the claim request to the amount of 62,509 thousand dinars.

If we exclude the effect of won court dispute, the percentages of share of other income in total other income amounts to 8.01%. Also, as part of the other income, important items refer to income from collected interest from earlier years – corporate sector, entrepreneurs and retail customers in the total amount of 12,605 thousand dinars, making 6.12% of other income.

3.10. Other Expenses

Other expenses are stated in the amount of RSD 3,065,702 thousand and they have been increased in comparison to the same period last year by RSD 125,071 thousand, or 4.25 %. Other expenses consist of:

a) Operating expenses amounting to RSD 2,742,227 thousand,
b) Cost of provisions for court disputes amounting to RSD 216,187 thousand, and
c) Other expenses amounting to RSD 125,223 thousand and
d) Losses from debiting and write off of fixed finds and non-material assets to the amount of 65 thousand dinars.

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

a) Operating expenses in the total amount of RSD 2,724,227 thousand, as follows:

- intangible costs totalling RSD 1,157,741 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 801,929 thousand, property insurance expenses in the amount of RSD 93,913 thousand, costs of transportation to work and from work 45,446 thousand, costs of money transport to the amount of 42,009 thousand, and

- Cost of production services amounting to RSD 941,333 thousand;

Operating expenses of the current period are lower compared to the same period last year by RSD 94,844 thousand.

b) Provision expenses for court liabilities in the amount of RSD 216,187 thousand refer to increased provisions for court liabilities of the Bank in 2018, and

c) Other expenses in the amount of RSD 125,223 thousand.

Out of total amount of other expenses for the period January – June 2018, *totalling RSD 125,223 thousand* the largest part relates to the costs of insurance policy of borrowers' receivables in the amount of RSD 79,215 thousand. Other expenses on such basis in Q2 2017 amounted to RSD 46,611 thousand.

Compared to the same period 2017, other expenses are higher by RSD 21,087 thousand, primarily as a result of the increase in costs of insurance policy of borrowers' receivables (increase in RSD 29,605 thousand).

BALANCE SHEET

Total balance sheet amount as of 30.06.2018. in the amount of 380,551,714 thousand dinars, which in relation to December 31, In the first half of the year, it increased by RSD 11,368,176 thousand or 3.08%.

ASSETS

The dominant share in the total assets of the Bank is given to loans and deposits to customers and banks of 46.75% (2017: 49.69%), securities with a share of 34.00% (2017: 31.77%), cash and funds with the central bank with a participation of 14.23% 2017: 13.50%), other assets with a share of 1.82% (2017: 1.84%), real estate, plant and equipment with a share of 1.46% (2017: 1.53%) and investments in subsidiaries 0.69% (2017: 0.71%).

3.11. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 30.06.2018 amounted to 54,170,572 thousand dinars, representing 14.23% of the total assets of the Bank (13.50% as of December 31, 2017). Compared to 31.12.2017, the position was higher by 4,329,685 thousand dinars.

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

Investments in securities in the amount of RSD 129,375,428 thousand represent a percentage of participation of 34.00% in relation to total assets (2017: 31.77%) and comprise of securities that are valued at fair value through profit and loss in the amount of RSD 5,823,225 thousand and securities that are valued at fair value through other results in the amount of RSD 123,552,203 thousand.
The increase of investing in securities in relation to 2017 was realized by RSD 12,086,661 thousand or 10.31%. Of total realized growth of RSD 12,086,661 thousand, 553,516 thousand dinars are related to securities valued at fair value through profit and loss, while the increase in securities at fair value through other results amounts to 11,533,145 thousand dinars.

The largest share in the securities structure in RSD is RS bonds (99.11%), followed by investment units of KomBank Cash Fund, Beograd (0.88%). Regarding foreign currency securities, these are made up of RS bonds (97.18%) and bonds by foreign banks and countries in the amount of (2.82%).

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.

On 30.06.2018, loans and receivables from banks and other financial organizations amount to RSD 15,321,198 thousand, with a share of 4.03% of total assets (2017: RSD 29,543,789 thousand) and are lower by RSD 14,222,591 thousand. Decrease compared to 31.12.2017 the largest part is the result of a decrease in REPO transactions by 14,800,000 thousand dinars on the one hand, and an increase in the balance on regular foreign currency current accounts abroad by 2,719,469 thousand dinars on the other.

Loans and receivables from customers as at 30.06.2018 amounted to 162,578,939 thousand dinars with a share of 42.72% of total assets (2017: 153,897,367 thousand dinars) have a dominant share in the structure of assets. Total loans to customers increased by 5.64% compared to 2017, that is, RSD 8,681,572 thousand, of which RSD 5,665,211 thousand relates to two new loans.

In the period January – June 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 501,568 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 0.69% 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 30th June2018 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 value 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 4.33% of total assets, of which the highest percentage relates to other assets in the amount of 1.82%, real estate, property and equipment in the amount of 1.46% and investment property in the amount of 0.51%.

Equity investments in banks, foreign and local legal entities as of 30th June2018 amount to RSD 1,288,493 thousand valued at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,244,572 thousand and these are shares in the companies Master Card and Visa International.

Deferred tax assets in the amount of 1,404,479 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 (net amount 857.096) with deferred tax liabilities during the business year), deferred tax assets and deferred tax liabilities are presented in separate balance sheet items, i.e. are declared by gross principle in the current fiscal years. As of 30th June 2018, deferred tax liabilities amount to RSD 1,404,497 thousand, and deferred tax liabilities amount to RSD 598,524 thousand, presented as liabilities in the balance sheet.

Deferred tax assets as of 30th June2018 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.

In 2018, there was an increase in deferred taxes on the basis of a change in the value of securities by RSD 19,348 thousand, reflected in the increase of tax assets items by RSD 3,589 thousand and tax liabilities in the amount of RSD 22,937 thousand.

LIABILITIES

In the period January – June 2018, in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share, with a total percentage of 80.15% (2017:80.45%) of the total liabilities. The share of capital in total liabilities amounts to 16.57% (2017:80.45%).

Other items make 3.28% of total liabilities, which mainly refers to the other liabilities with the percentage of 2.73%.

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.

The most important share in the structure of liabilities have the deposits and other financial liabilities to customers in the amount of RSD 300,439,631 thousand representing 78.95% of the total liabilities (2017: 79.22%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of 4,572,328, with a share of 1.20% (2017: 1.23%).

Total deposits to customers, banks, other financial organizations and central banks amounted to 305,011,959 thousand dinars, and compared to 2017, they were higher by 8,007,814 thousand dinars: transaction deposits were higher by 2,252,754 thousand dinars, while other deposits recorded an increase of 5,755,060 thousand dinars. The most significant individual growth in the position of other deposits relates to the deposit of a legal entity for securing collection on loans in the amount of RSD 3,190,378 thousand.

The increase in transaction deposits was the result of an increase in RSD transaction deposits in the amount of 372,183 thousand dinars, while transaction deposits in foreign currency increased by 1,880,571 thousand dinars compared to December 31, 2017. In the structure of transaction deposits, deposits in domestic currency are still dominant with a share of 59.46%, while the remaining 40.54% refers to deposits in foreign currency.

In other deposits, deposits in foreign currency with a participation of 92.51% dominate, while dinar deposits have a share of 7.49%. Foreign currency savings increased by approx. 30.69 million euros.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers, amounted to RSD 4,133,910 thousand, with a percentage of shares in the total liabilities of 1.09%, refer to received credit lines in foreign currency and in dinars. The total position is lower in relation to 2017 for 3,278,077 thousand dinars mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- Early repayment of the EIB credit line in the amount of EUR 6,184 thousand and regular repayments in the amount of EUR 3,781 thousand

- Early repayment of the KfW credit line in the amount of EUR 8,182 thousand and regular repayments in the amount of EUR 2,727 thousand

i.e. regular repayment of credit lines:

- EAR Fund revolving loan in the amount of EUR 209 thousand,
- Government of the Republic of Italy in the amount of 462 thousand EUR and
- EBRD in the amount of 6,000 thousand EUR

On 30.06.2018, the most significant share in the structure of borrowings relates to the obligation to:

- European Investment Bank (EIB) with a percentage of participation 59.17%
- EBRD with a percentage of participation 34.27%.

Other credit lines have a share of 6.55% and compose of:

- LEDIB 1 and 2 (Danish Kingdom Credit)
- Government of the Republic of Italy
- European Agency for Reconstruction and Development (EAR)

3.17. Provisions

Provisions in the amount of RSD 1,493,303 thousand consist of provisions for:

- Covering of potential liabilities (litigations) in the amount of 858,099 thousand dinars,
- Long-term employee earnings in the amount of RSD 451,677 thousand and
- Provisions for losses on off-balance sheet assets in the amount of 183,527 thousand dinars.

In the observed period, compared to 2017, there was an increase in provisions in the amount of RSD 125,252 thousand, as a result of the net increase in provisions for court proceedings for RSD 66,117 thousand and the increase in provisions for losses on off-balance sheet assets in the amount of RSD 59,135 thousand.

Provisions for court disputes

Recognition of the provision was made on the basis of estimation of future outflows in the amount of claims, including interest and expenses.

For a thousand hundred and fifteen cases on 30.06.2018, total provision is 858,099 thousand dinars.

Compared to 31.12.2017 there was a change in the total level of provisions in the net amount of RSD 66,117 thousand. Out of this amount, the change relating to the net provisioning arising from court obligations amounts to RSD 89,845 thousand (note 3.9 and 3.10), while the decrease in the provision in the amount of RSD 23,728 thousand refers to the use of the provision for making payments after final court judgements. The increase in the provision is the result of an additional calculation of interest and exchange rate differences for existing disputes and the formation of new provisions by 1,061 new items.

3.18. Other liabilities

Other liabilities amount to RSD 10,373,577 thousand, and compared to 2017, they are more than RSD 2,830,135 thousand.

The share of other liabilities in the total liabilities is 2.73% (2017: 2.04%). The most important positions of other liabilities are: liabilities from the proceeds in the amount of RSD 5,442,133 thousand, liabilities in the calculation based on the purchase of foreign currency from banks in foreign currency in the amount of RSD 2,007,149 thousand, other liabilities in the settlement of SPOT transactions in the amount of RSD 922,379 thousand, net salaries in the amount of 236,609 thousand dinars, liabilities for repayment of loans to households in the amount of 171,400 thousand dinars, liabilities based on received advances in the amount of 163,088 thousand dinars and liabilities for payment by payment cards abroad (visa, master) in the amount of 140,809 thousand dinars.

Increases in other liabilities in the amount of RSD 2,830,135 thousand mostly relate to the increase in the liabilities from the profit in the amount of RSD 2,934,556 thousand, the increase in liabilities related to the purchase of foreign currency from banks in foreign currency in the amount of 1,059,368 thousand dinars and liabilities for net salaries in the amount of expenditures 202,677 thousand dinars, and, on the other hand, the reduction of liabilities based on other liabilities in the settlement of SPOT transactions in the amount of 329,574 thousand dinars, the decrease in liabilities in the settlement of transactions in the purchase of foreign currency in dinars in the foreign exchange market in amounting to RSD 354,900 thousand and reduction of liabilities to suppliers in the amount of RSD 300,056 thousand.

The increase in the liabilities from the profit was made on the basis of the decision of the Bank's GMS 6380/3 dated 26.04.2018 on distribution of profit from 2017 and undistributed profit from previous years and in the largest amount refers to liabilities based on dividends on ordinary shares and preference shares in the amount of 2,535,915 thousand dinars. The payment of dividends will be made after obtaining the conditions prescribed by the Law on Banks and in accordance with dividend policy.

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

On June the 30[th] 2018, the Bank's capital comprises 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	14,223,535	11,061,535
Revaluation reserves	2,016,534	3,953,060
Profit/loss from changes in the value of debt and owner instruments	2,222,784	(3,538)
Actuarial gains	77,199	77,199
Reserves	18,540,052	15,088,256
Accumulated loss/profit	879,000	19,881
Effect of the first application of IFRS9	-	-
Profit	3,620,749	8,117,368
Balance as at date	**63,076,351**	**63,260,055**

Based on the Decision of the Bank's Assembly of 6380/3 dated 26 April 2018, the distribution of the profit from 2017 and earlier years after which the negative effect of the first application of IFRS 9 was made in the amount of 1,161,693 thousand dinars (negative position expressed in the previous quarter) and increase of reserves from profit for 3,162,000 thousand dinars.

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 30th June2018, 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 30th June2018the 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

Shareholde' name	% of share
The 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
BDD M&V INVESTMENTS AD BEOGRAD – Custody account	1.67
Company Dunav insurance	1.53
EAST CAPITAL (lux) BALKAN FUND	1.44
GLOBAL MARCO CAPITAL OPPORTUNITIES	0.78
СТАНКОМ Co ДОО БЕОГРАД	0.70
SOCIETE GENER. BANKA SRBIJA - Custody account	0.48
UNICREDIT BANK Srbija AD - Custody account	0.47
FRONT. MARK. OPPORTUN. MASTER	0.41
Others	7.39
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 30.06.2018

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Net	Off-balance Net	Total	Subsidiaries
1.Kom.banka AD Budva	6,603	953	-	95	7,461	-	7,461
2.Kom. Banka AD Banja Luka	708,442	3	1,201	8,942	700,704	598,338	1,291,042
3. Kombank INVEST	-	116	-	-	116	200	316
TOTAL:	**715,045**	**1,072**	**1,201**	**9,037**	**708,281**	**590,538**	**1,298,819**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interests and fees	Other liabilities	Total
1.Kom.banka AD Budva	423,341	-	1,649	424,990
2.Kom. Banka AD Banja Luka	121,086	-	-	121,086
3. Kombank INVEST	9	-	-	9
TOTAL:	**544,436**	**-**	**1,649**	**546,085**

INCOME AND EXPENSES for period 01.01- 30.06.2018.

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commission expenses	Net income / expenses
1.Kom.banka AD Budva	36	1,175	-	-	1,211
2.Kom. Banka AD Banja Luka	2,026	2,827	-	(544)	4,309
3. Kombank INVEST	-	574	-	-	574
TOTAL:	**2,062**	**4,576**	**-**	**(544)**	**6,094**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 5,151 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- 30.06. 2017.

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Kom. Banka AD Budva	45	1,370	-	(627)	788
2. Kom. Banka AD Banja Luka	2,041	1,207	-	(446)	2,802
3. KomBank INVEST	-	943	(102)	-	841
TOTAL:	**2,086**	**3,520**	**(102)**	**(1,073)**	**4,431**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 28,840 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.

- 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.

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 June 30, 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

	30.06.2018		31.12.2017	
	Gross	Net	Gross	Net
I. Assets	**411,552,234**	**380,551,714**	**399,678,901**	**369,183,538**
Cash and cash funds held with the central bank	54,170,572	54,170,572	49,840,887	49,840,887
Loans and receivables due from banks and other financial institutions	15,552,138	15,321,198	29,746,347	29,543,789
Loans and receivables due from customers	181,360,194	162,578,939	171,931,966	153,897,367
Financial assets	129,377,197	129,375,428	117,288,770	117,288,767
Other assets	8,943,627	6,949,166	9,347,623	6,798,506
Non-montary assets	22,148,506	12,156,411	21,523,308	11,814,222
II. Off-Balance Sheet Items	**36,803,409**	**36,619,882**	**34,284,701**	**34,160,309**
Payment guarantees	3,279,098	3,205,260	3,443,746	3,416,712
Performance bonds	3,038,001	3,017,524	4,349,152	4,320,139
Irrevocable commitments	30,219,353	30,152,786	26,194,257	26,149,893
Other items	266,957	244,311	297,546	273,565
Total (I+II)	**448,355,643**	**417,171,595**	**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

30.06.2018	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	36,512,045	1,538,816	38,050,861	37,825	808,286	846,111	37,204,750
Cash Loans	27,394,936	184,617	27,579,553	60,562	122,453	183,015	27,396,538
Agricultural Loans	7,953,566	275,273	8,228,839	83,161	152,853	236,014	7,992,825
Oher Loans	5,601,732	165,592	5,767,324	18,232	149,161	167,393	5,599,931
Micro business	8,618,743	680,239	9,298,983	122,453	350,217	472,669	8,826,313
Total Retail	**86,081,022**	**2,844,538**	**88,925,559**	**322,232**	**1,582,970**	**1,905,202**	**87,020,357**
Large corporate clients	39,335,401	16,505,112	55,840,513	751,606	12,241,414	12,993,020	42,847,493
Middle corporate clients	8,379,336	1,991,949	10,371,285	87,810	1,280,268	1,368,078	9,003,207
Small corporate clients	3,740,929	1,336,342	5,077,271	35,727	693,369	729,096	4,348,176
State owned clients	9,669,719	761,253	10,430,972	68,662	156,715	225,377	10,205,595
Other	9,316,010	1,398,583	10,714,594	162,310	1,398,172	1,560,482	9,154,112
Total Corporate	**70,441,396**	**21,993,239**	**92,434,635**	**1,106,115**	**15,769,938**	**16,876,052**	**75,558,583**
Total	**156,522,418**	**24,837,777**	**181,360,195**	**1,428,347**	**17,352,908**	**18,781,255**	**162,578,940**
Due from Banks	**15,345,040**	**207,098**	**15,552,138**	**23,842**	**207,098**	**230,940**	**15,321,198**

(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

30.06.2018	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	**88,925,559**	**1,905,202**	**2,844,538**	**874,993**	**1,582,970**	**3,20%**	**2,604,47**
Housing Loans	38,050,861	846,111	1,538,816	451,576	808,286	4,04%	1,526,65
Cash Loans	27,579,553	183,015	184,617	24,637	122,453	0,67%	128,63
Agricultural Loans	8,228,839	236,014	275,273	17,933	152,853	3,35%	259,79
Oher Loans	5,767,324	167,393	165,592	-	149,161	2,87%	9,01
Micro business	9,298,983	472,669	680,239	380,847	350,217	7,32%	680,38
Total Retail	**92,434,635**	**16,876,052**	**21,993,239**	**17,370,099**	**15,769,938**	**23,79%**	**20,410,84**
Agricultural Loans	5,645,478	92,986	239,189	14,794	68,357	4,24%	239,04
Manufacturing Industry	19,811,435	5,879,870	8,934,443	8,243,145	5,756,814	45,10%	8,928,25
Electricity	158,345	3,319	47,331	-	33	29,89%	47,33
Construction Loans	7,557,124	1,013,289	939,798	816,701	891,599	12,44%	939,80
Wholesale and Retal	24,248,018	2,140,688	3,103,148	2,304,508	1,750,385	12,80%	3,096,95
Services Loans	10,865,050	1,371,431	1,461,432	1,439,230	1,177,966	13,45%	1,461,54
Real Estate Loans	3,343,049	738,106	1,327,657	970,905	684,467	39,71%	1,328,09
Other	20,806,135	5,636,363	5,940,242	3,580,815	5,440,317	28,55%	4,369,81
	181,360,195	**18,781,255**	**24,837,777**	**18,245,092**	**17,352,908**	**13,70%**	**23,015,32**
	15,552,138	**230,940**	**207,098**	**-**	**207,098**	**1,33%**	

(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

	30.06.2018					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	36,333,960	178,085	0	36,512,045	36,284,307	35,707,544	228,663	9,881	35,946,088	35,671,079
Cash Loans	27,331,160	61,749	2,027	27,394,936	8,206,828	24,222,726	62,847	635	24,286,208	11,521,899
Agricultural Loans	7,914,356	39,209	0	7,953,566	6,089,719	7,125,547	27,708	294	7,153,549	6,059,245
Other	5,579,329	18,294	4,108	5,601,732	98,353	5,331,736	18,050	3,297	5,353,083	96,689
Micro Busines	8,256,704	318,278	43,761	8,618,743	8,618,595	7,286,079	356,729	61,890	7,704,698	7,704,263
Total Retail	**85,415,509**	**615,617**	**49,896**	**86,081,022**	**59,297,803**	**79,673,633**	**693,996**	**75,997**	**80,443,626**	**61,053,174**
Large corporate clients	38,730,582	519,177	85,642	39,335,401	39,339,806	34,569,288	831,495	-	35,400,783	34,954,220
Middle corporate clients	8,214,431	164,905	-	8,379,336	8,294,818	9,584,446	190,160	1,478	9,776,084	9,647,024
Small corporate clients	3,699,654	41,275	-	3,740,929	3,735,663	3,844,531	135,365	2	3,979,898	3,955,505
State owned clients	8,483,995	1,142,299	43,425	9,669,719	6,896,871	7,794,070	1,768,042	50,777	9,612,889	6,158,448
Other	9,315,864	-	146	9,316,010	6,274,287	3,052,381	3,751,885	52	6,804,318	3,752,134
Total Corporate	**68,444,526**	**1,867,656**	**129,213**	**70,441,396**	**64,541,446**	**58,844,716**	**6,676,947**	**52,309**	**65,573,972**	**58,467,332**
Total	**153,860,035**	**2,483,273**	**179,109**	**156,522,418**	**123,839,249**	**138,518,348**	**7,370,943**	**128,307**	**146,017,598**	**119,520,506**
Due from Banks	**15,345,040**	-	-	**15,345,040**	-	**29,543,789**	-	-	**29,543,789**	-

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. The Bank on an annual basis, depending on market trends, risk appetite, business policy and annual business plan, reviews and if necessary changes internally set limits.

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

5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. The Bank also monitors compliance with the regulatory prescribed narrow liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7as the average liquidity ratio for all working days in a month. Starting from June 30th 2017, the Bank adjust its operation with the regulated indicator of liquidity coverage ratio, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	4,47	4.30	4,3	4.10	399%	436%
Average for the period	4,65	3.99	4,36	3.61	443%	
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	388%	-

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

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.06.2018.	31.12.2017.
GAP up to 1 month / Total assets	Max (10%)	(0,99%)	2.16%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(2,39%)	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 adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof.

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

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

5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

The 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:

	Limits	30.06.2018	31.12.2017
Relative GAP	Max 15%	3.14%	2.18%
Mismatch ratio	0.75 – 1.25	1.04	1.03

During the firt half year 2018, interest rate risk indicators moved within internally defined limits.

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

Compliance with internally defined limits of economic value of equity:

	30.06.2018	31.12.2017
As at	5.72%	3.65%
Average for the year	4.86%	3.86%
Maximum for the year	5.72%	4.49%
Minimum for the year	4.00%	3.03%
Limit	**20%**	**20%**

The Bank's management believes that appropriate compliance of positions per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	30.06.2018	**31.12.2017**
Total currency risk balance	1,749,252	2,248,347
Currency risk ratio	3.14%	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, client account services and asset management.

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

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

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

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

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

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

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

5.8. Capital management

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

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

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

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

The Bank's regulatory capital represents the sum of the Tier 1 Capital (Common Equity Tier 1 - CET1 Capital and Additional Tier 1 Capital) and Tier 2 Capital, reduced for deductible items. The capital adequacy ratios represent the Bank's capital (total capital, Tier 1 capital and Common Equity Tier 1 capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries; risk exposure amount for settlement/delivery (except for free deliveries); risk exposure amount for market risks; risk exposure amount for operational risk; risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries are determined according to risk weights prescribed for all types of assets. Risk exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio		(000) RSD
	30.06.2018.	**31.12.2017**
Tier 1 (T1) Capital	58,574,602	55,122,806
Common Equity Tier 1 (CET1) Capital	55,383,001	54,749,296
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(2,818,091)	(3,992,144)
Capital	**52,938,420**	**51,130,662**
Credit risk-weighted assets	154,700,659	146,903,022
Operational risk exposure	31,379,213	31,680,737
Foreign currency risk exposure	4,125,960	4,761,814
Capital adequacy ratio (min. 14.39%)	**29.31%**	**27.89%**
Share capital adequacy ratio (min. 12.39%)	**29.31%**	**27.89%**
Basic share capital adequacy ratio (min. 10.89%)	**29.12%**	**27.68%**

During the second quarter of 2018, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of the adequacy of total, Tier 1 and Common Equity Tier 1 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 Q2 2018, the Bank also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

- 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.

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

General Meeting of Shareholders of Komercijalna Banka AD Beograd, at the meeting held on 31.07.2018, decided to appoint an authorized auditor firm Ernst & Young d.o.o. Belgrade for the external auditor of the Bank for 2018.

On 13.07.2018, in the name of the contract on the transfer of receivables, the Bank received compensation for the transferred claim in the amount of EUR 12,900,000 or RSD 1,522,765 thousand. Based on the transaction, a positive effect on the income statement in the amount of 526,547 thousand dinars was achieved.

By the decision of the central register of the Commercial Court in Podgorica dated 04.07.2018, there was the change of the name and business seat of the dependent legal entity from Komercijalna Banka ad Budva to Komercijalna Banka ad Podgorica with headquarters in Podgorica, Centinjska street 11, tower PC 1.

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 30th June2018 and 31st December 2017 for certain main currencies are as follows:

Currencies	Official NBS exchange rate	
	2018.	2017.
USD	101.3369	99.1155
EUR	118.0676	118.4727
CHF	101.9230	101.2847

In Belgrade,

On 07.08.2018

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 30/06/2018 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

Sanja Đeković
Executive Director for
Finance and Accounting

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Miroslav Perić
Member of the Executive Board

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

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2018. until 30.06.2018. have not been audited.

In accordance with the Law on Accounting, the Law on Banks and other relevant bylaws of the National Bank of Serbia, Komercijalna Banka AD Belgrade only audits the annual financial statements.

The statement is made in accordance with Article 52, paragraph 7 of the Law on the Capital Market.

Persons responsible for the preparation of financial statements

Sanja Đeković
Executive Director for
Finance and Accounting

Miroslav Perić
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД 4