2018 SEMI-ANNUAL CONSOLIDATED REPORT OF KOMERCIJALNA BANKA GROUP

REPORT ON BUSINESS OPERATIONS OF THE GROUP KOMERCIJALNA BANKA AD BEOGRAD FOR THE PERIOD FROM 01.01. TO 30.06.2018.

Belgrade, August 2018

CONTENTS

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

Functional currencies EUR, used in the financial statements of Komercijalna banka AD Budva[1], and BAM, used in the financial statements of Komercijalna banka AD Banja Luka, have been converted to the reporting currency of the Parent Bank - dinar (RSD) based on the officially published exchange rates in the Republic of Serbia.

The Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the period have been calculated by applying the average official exchange rate in the Republic of Serbia for the first six months of the year 2018 of 118,3028 for one EUR and 60,4873 for one BAM, while other consolidated financial statements (Balance Sheet, Statement of Changes in Equity and Statement of Other Comprehensive Income) by applying the closing exchange rate on the balance sheet date of 118,0676 for one EUR, or 60,3670 for one BAM.

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

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

1 On 04 July 2018 the name and the seat of Komercijalna banka ad Budva was changed to Komercijalna banka ad Podgorica

1. Key Performance Indicators of the Group

DESCRIPTION	30.06.2018	30.06.2017	INDICES 2018/ 2017	2016	2015	2014
(in RSD thousand and as a percentage)						
Profit / loss before tax	3.785.924	4.487.352	84,4	-6.533.686	-6.893.558	4.792.801
Net interest income	6.774.684	6.901.859	98,2	14.456.333	14.839.373	14.436.051
Net fee income	2.708.014	2.613.013	103,6	5.093.523	5.190.282	4.983.940
PROFITABILITY PARAMETERS[2]						
ROA	1,9%	2,2%	-	-1,5%	-1,6%	1,2%
ROE (on total capital)	11,3%	14,5%	-	-10,5%	-10,1%	6,9%
Net interest margin on total assets	3,3%	3,3%	-	3,4%	3,5%	3,5%
Cost / income ratio	61,5%	62,8%	-	63,2%	60,4%	61,6%
Operating expenses	5.833.038	5.971.139	97,7	12.363.223	12.092.310	11.953.592
Net income/expenses from reduction in impairment of financial assets not measured at fair value	24.658	265.192	-	-13.079.497	-13.807.580	-2.821.458
DESCRIPTION	**30.06.2018**	**2017**	**INDICES 2018/2017**	**2016**	**2015**	**2014**
Consolidated balance sheet assets	417.323.096	400.108.316	104,3	428.827.608	416.461.558	430.702.109
Off-balance sheet operations	502.747.058	507.345.996[3]	99,1	551.970.548	621.827.674	416.982.422
Loans and receivables from banks and other financial organisations	16.512.063	30.233.555	54,6	43.216.681	17.848.897	35.733.988
Loans and receivables from customers	185.957.179	174.242.139	106,7	166.401.008	179.422.656	203.828.648
Deposits and other liabilities to banks, other financial organisations and the central bank	6.663.976	6.137.776	108,6	9.822.519	18.768.726	26.247.764
Deposits and other liabilities to other customers	330.825.522	317.577.748	104,2	345.135.959	319.334.622	321.094.208
CAPITAL	66.995.213	67.100.116		59.292.420	64.694.402	72.100.729
Capital adequacy	25,8%	24,6%		26,2%	23,1%	18,7%
Number of employees	3.108	3.106	100,1	3.152	3.148	3.178
Assets per employee *(in RSD thousand)*	134.274	128.818	104,2	136.049	132.294	135.526
Assets per employee *(in EUR thousand)*	1.137	1.087	104,6	1.102	1.088	1.120

2 Profitability parameters are reported on annual basis

3 As of 30.06.2018 the consolidation of off-balance sheet records has been carried out, and due to comparability of data with the current year the data for 2017, which have already been published in the Group's Annual Report, were corrected

2. Operations and Organisational Structure of the Group

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

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

- deposit operations (receiving and placing deposits),
- lending operations (granting loans and borrowing),
- foreign currency and money exchange operations,
- payment transactions,
- payment card issuance,
- securities operations (issuing of securities, custody bank operations etc.),
- broker/dealer operations,
- issuing of guarantees, guarantee of a bill and other forms of surety (guarantee operations),
- debt purchase, sale and collection (factoring, forfeiting etc.),
- insurance agency operations, upon prior approval of the National Bank of Serbia,
- other operations it is authorised to conduct under the law.

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

Komercijalna banka AD Podgorica performs the following operations:

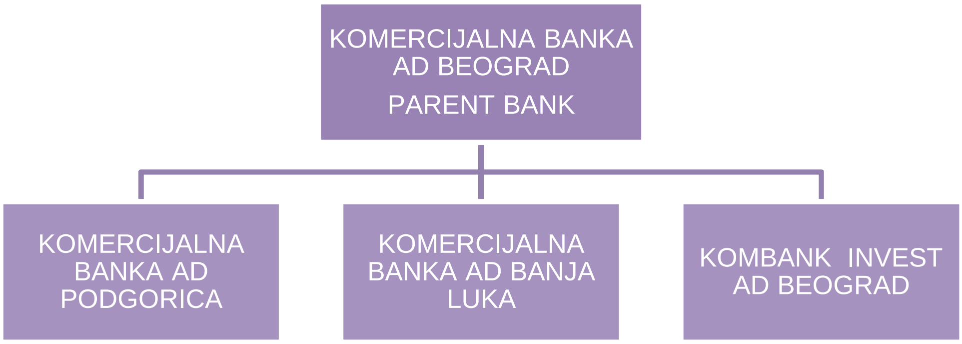
- deposit operations (receiving and placing deposits),
- lending operations (granting loans and borrowing),
- issues guarantees and assumes other obligations,
- debt purchase and collection,
- issues, processes and records payment instruments,
- international payments,
- financial leasing,
- trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- data collection, prepares analyses and provides information and advice on creditworthiness of companies and entrepreneurs,
- depository operations,
- safekeeping of assets and securities,
- other ancillary operations within the Bank's scope of operations.

Komercijalna banka AD Banja Luka is registered in Bosnia and Herzegovina for payment operations and credit and deposit operations in the country and abroad, in accordance with the regulations of the Republic of Srpska.

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

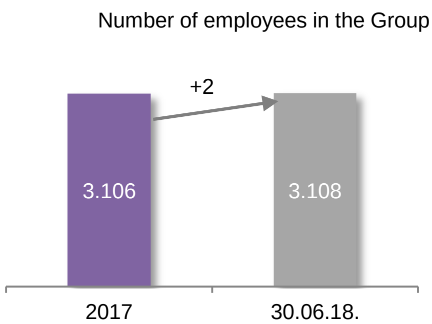
- organising and managing open-end investment fund,
- establishing and managing closed-end investment fund,
- managing private investment fund.

Organisational Chart of the Group



Human Resources of the Group

As at 30.06.2018, the Group had a total of 3.108 employees, this being 2 more than at the end of the previous year 2017. Reduction occurred in KB Podgorica (4), whereas in KB Banja Luka the number of employees increased (3), as well as in the parent bank (3), while in KB INVEST the number of employees remained the same.



Key Information on Group Members

	KOMERCIJALNA BANKA AD PODGORICA *	KOMERCIJALNA BANKA AD BANJA LUKA	IFM KomBank INVEST AD BEOGRAD
STREET ADDRESS	Cetinjska 11/VI/ Kula PC 1	Veselina Masleše 6	Kralja Petra 19
COUNTRY	Montenegro	BiH, Republic of Srpska	Serbia
TELEPHONE	+382-20-426-300	+387-51-244-700	011-330-8160

* On 04 July 2018 in the central registry of the Tax Administration the change was registered of the seat and the name to Komercijalna banka ad Podgorica.

KOMERCIJALNA BANKA AD PODGORICA

100% owned by KB Beograd

Komercijalna banka AD Podgorica was incorporated in November 2002 as an affiliation of Komercijalna banka AD Beograd and was registered with the central register of the Commercial Court of Podgorica on 6 March 2003. On 04 July 2018 in the central registry of the Tax Administration the change was registered with respect to the seat and the name to Komercijalna banka ad Podgorica.

- 134 employees,
- 8 branches and 1 sub-branch

KOMERCIJALNA BANKA AD BANJA LUKA

99,998% owned by KB Beograd

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

- 160 employees,
- Head Office, 9 branches and 6 agencies

KOMBANK INVEST AD BEOGRAD

100% owned by KB Beograd

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

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

As of 30 June 2018 the Company managed three investment funds, including:

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

At the end of the first half of the year 2018 the Company had five employees.

Key Information on the Parent Bank

Address/Head Office / Divisions	Svetog Save 14	Svetogorska 42-44	Makedonska 29
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

KOMERCIJALNA BANKA AD BEOGRAD

40,8% owned by Republic of Serbia
23,9% owned by EBRD, London

KOMERCIJALNA BANKA
Meni najbliža

Komercijalna banka AD Beograd, the Parent Bank, was incorporated on 01 December 1970, and was transformed into a joint-stock company on 06 May 1992. The Bank was registered with the Commercial Court in Belgrade on 10 July 1991 and was legally re-registered in the Business Registers Agency on 14 April 2006. The Bank was granted a banking license by the National Bank of Yugoslavia on 03 July 1991.

- 2.809 employees,
- 6 business centres, 3 divisions for SME Banking, one branch (KM) and 204 sub-branches.

	BUSINESS CENTERS	SEAT
1.	BC Belgrade 1	Trg Politika 1, Belgrade
2.	BC Belgrade 2	Trg Politika 1, Belgrade
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11

	DIVISIONS FOR SME BANKING	SEAT
1.	Division Belgrade	Svetogorska 42-44, Belgrade
2.	Division Central Serbia	Svetogorska 42-44, Belgrade
3.	Division Vojvodina	Novosadskog sajma 2, Novi Sad

During the Q1 2018 the Bank conducted the reorganisation of the business function Corporate Banking with the aim of increasing the efficiency, effectiveness and productivity of business operations.

The reorganization of the business function Corporate Banking was carried out on 02 March 2018 and the subject activities included:

- Organizational changes,
- Personnel changes,
- Changes in business processes and activities, as well as
- Changes in the management structure.

The conducted reorganization resulted in reduced number of organizational units/parts in the segment of small and medium-sized enterprises, the previous five Business Corporate Centres (Belgrade, Novi Sad, Užice, Niš, Kragujevac) has been reorganized into three Divisions for SME Banking (Belgrade, Vojvodina and Central Serbia).

In addition to the above, the Bank also decentralized the credit analysis process in order to speed up the credit process and to achieve increased work efficiency. Instead of centralized credit analysis, the credit analysis has now been joined with the sales function within the teams in the Divisions for SME Banking.

In order to accomplish the plan-related goals, the planned budgets for realization of business activities have been „lowered“ to Divisions, and/or the teams within the Divisions, so that the directors of the Divisions and the team leaders are now responsible for implementation of allocated budgets.

3. Financial Position and the Business Performance of the Group

3.1 Macroeconomic Business Conditions

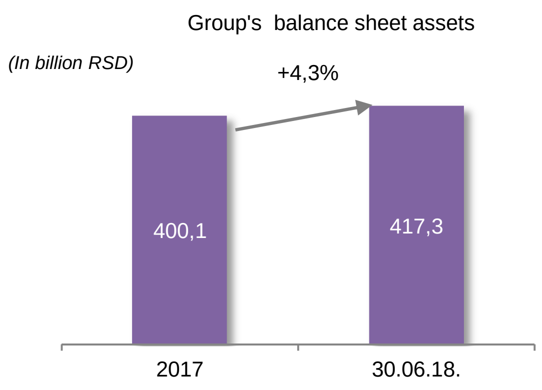
Macroeconomic indicators	SERBIA	MONTENEGRO[4]	REPUBLIC OF SRPSKA
Gross domestic product[5]	EUR 8,84 billion	EUR 4,40 billion	EUR 1,23 billion[6]
GDP trends	+4,6%	-	+3,1%[7]
Consumer price index (June 2018 / June 2017)	+2,3%	+2,9%	+1,6%
Banking sector assets	+0,5%[8]	-0,3%	+1,0%[9]
Share of banking sector assets in GDP	77,3%[10]	94,8%	0,34%[11]
Industrial production (Jan-May 2018 / Jan-May 2017)	+4,1%[12]	+32,8%	-4,4%[13]
Banking sector NPL, or non-performing assets[14]	8,6%	7,1%	10,7%
Unemployment rate	14,8%[15]	19,9%	29,9%

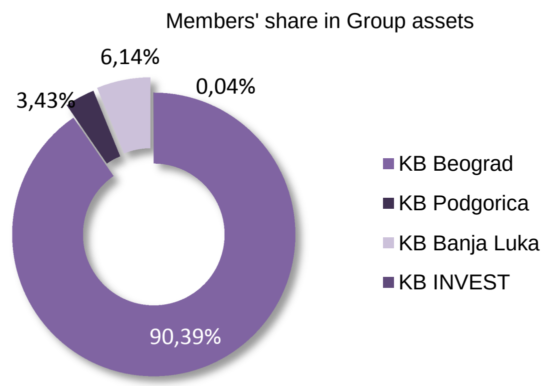
Note: Macroeconomic indicators according to available data of the competent authorities

3.2 Group's Performance

DESCRIPTION	30.06.18.	2017	2016	2015	2014
(in thousand RSD)					
GROUP'S BALANCE SHEET ASSETS	417.323.096	400.108.316	428.827.608	416.461.558	430.702.109
Komercijalna banka a.d. Beograd	377.234.211	366.074.702	397.222.810	387.378.734	400.168.484
Komercijalna banka a.d. Podgorica	14.295.316	13.801.705	13.212.323	12.497.800	13.939.442
Komercijalna banka a.d. Banja Luka	25.634.808	20.075.186	18.385.992	16.469.869	16.484.378
KomBank INVEST a.d. Beograd	158.761	156.723	6.483	115.155	109.805

4 Balance as at 30.04.2018
5 SORS, Press Release 31.05.2018, NBS-amount in EUR
6 Information relates to Q1 of 2018, BAM 2,4 billion, which is about EUR 1,23 billion at the exchange rate 1 EUR=1,95583 BAM
7 Information relates to the period Jan-March 2018/ Jan-March 2017
8 Growth of Serbian banking sector assets 31.03.2018/2017
9 Information relates to Q1 of 2018 in relation to balance as of 31.12.2017
10 Balance as of 31.12.2017
11 Information relates to 31.03.2018
12 SORS, Press Release, 29.06.2018, for Serbia the information relates to the period January –May 2018 relative to the same period 2017
13 Information relates to the period June 2018/June 2017
14 NBS, Macroeconomic trends,July 2018, for Serbia the information relates to May 2018 (NPL /total loans)
15 SORS, Labor Force Survey, First quarter 2018

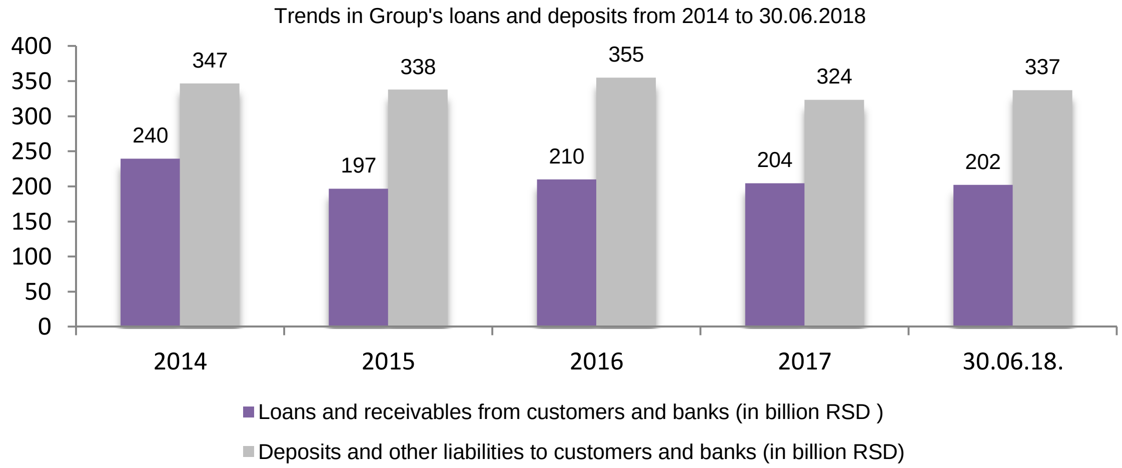




The Group's balance sheet assets at the end of the first half 2018 is increased in comparison to the end of 2017 by RSD 17.214,8 million (4,3%). Share of the Parent Bank is still predominant (Group members account for 9,6% of total consolidated assets).

Loans and Deposits of Customers and Banks as of 30.06.2018 by Group Members

DESCRIPTION	30.06.18.	2017	2016	2015	2014
(in thousand RSD)					
LOANS TO AND RECEIVABLES FROM CUSTOMERS AND BANKS	202.469.242	204.475.694	209.617.689	197.271.553	239.562.636
Growth percentage	-1,0%	-2,5%	6,3%	-17,7%	3,6%
Komercijalna banka a.d. Beograd	177.194.727	182.944.400	190.830.293	179.006.392	219.502.491
Komercijalna banka a.d. Podgorica	8.841.880	7.883.783	6.351.466	7.271.135	7.687.740
Komercijalna banka a.d. Banja Luka	16.416.541	13.647.511	12.435.930	10.994.026	12.372.405
KomBank INVEST a.d. Beograd	16.094	-	-	-	-
DEPOSITS AND LIABILITIES TO CUSTOMERS AND BANKS	337.489.498	323.715.524	354.958.478	338.103.348	347.341.972
Growth percentage	4,3%	-8,8%	5,0%	-2,7%	13,4%
Komercijalna banka a.d. Beograd	304.517.862	295.755.134	329.732.740	316.177.501	325.559.503
Komercijalna banka a.d. Podgorica	11.965.787	12.157.123	10.982.889	9.918.868	9.987.090
Komercijalna banka a.d. Banja Luka	21.005.849	15.803.267	14.242.849	12.006.979	11.795.379
KomBank INVEST a.d. Beograd	-	-	-	-	-



Share of the Parent Bank in loans and receivables from customers and banks of the whole Group accounted for 87,5%, KB Podgorica 4,4%, and KB Banja Luka 8,1%. Also, the share of the Parent Bank is dominant in deposits and other liabilities to customers and banks of the whole Group with 90,2% (KB Budva – 3,5%, KB Banja Luka – 6,2%).

3.3 Consolidated Balance Sheet

Group's Consolidated Assets as at 30 June 2018

No.	DESCRIPTION	30.06.18.	2017	INDICES	SHARE 30.06.18.
1	2	3	4	5=(3:4)*100	6
	ASSETS *(in thousand RSD)*				
1.	Cash and assets held with the central bank	62.286.857	56.076.748	111,1	14,9
2.	Securities	134.124.398	121.522.580	110,4	32,1
3.	Loans and receivables from banks and other financial organisations	16.512.063	30.233.555	54,6	4,0
4.	Loans and receivables from customers	185.957.179	174.242.139	106,7	44,6
5.	Intangible assets	464.319	498.387	93,2	0,1
6.	Property, plant and equipment	5.911.203	6.017.200	98,2	1,4
7.	Investment property	2.299.078	2.380.564	96,6	0,6
8.	Current tax assets	7.073	5.622	125,8	-
9.	Deferred tax assets	1.431.260	863.527	165,7	0,3
10.	Available-for-sale non-current assets and assets from discontinued operations	766.576	787.618	97,3	0,2
11.	Other assets	7.563.090	7.480.376	101,1	1,8
	TOTAL ASSETS	**417.323.096**	**400.108.316**	104,3	100,0

Among individual balance sheet positions, the highest share in Group's balance sheet assets was that of loans and receivables from customers (44,6%) and the same have upward trend in the first half of 2018 (increase of 6,7% in comparison to the end of 2017). Likewise, the securities make for a notable position of consolidated assets (32,1%) and the growth was recorded in the first half of 2018 (increase of 10,4% compared to the end of 2017). In total consolidated assets the cash and assets held with the central bank account for 14,9% and have been increased in comparison to previous reporting period (increase of 11,1%). Loans and receivables from banks and other financial organisations account for 4,0% of consolidated balance sheet assets and have been reduced by 45,4% compared to the end of 2017.

Group's Consolidated Liabilities as at 30 June 2018

No.	DESCRIPTION	30.06.18.	2017	INDICES	SHARE 30.06.18.
1	2	3	4	5=(3:4)*100	6
	LIABILITIES (*in thousand RSD*				
1.	Liabilities arising from derivatives	-	7.845	-	-
2.	Deposits and other liabilities to banks, other financial organisations and the central bank	6.663.976	6.137.776	108,6	1,6
3.	Deposits and other liabilities to other customers	330.825.522	317.577.748	104,2	79,3
4.	Provisions	1.655.603	1.551.883	106,7	0,4
5.	Current tax liabilities	3	1.751	0,2	-
6.	Deferred tax liabilities	628.609	1.647	-	0,2
7.	Other liabilities	10.554.170	7.729.550	136,5	2,5
	TOTAL LIABILITIES	**350.327.883**	**333.008.200**	105,2	83,9
	CAPITAL				
8.	Share capital	40.034.550	40.034.550	100,0	9,6
9.	Profit	4.659.727	8.357.092	55,8	1,1
10.	Loss	1.480.109	1.665.678	88,9	0,4
11.	Reserves	23.780.980	20.374.087	116,7	5,7
12.	Non-controlling participation	65	65	100,0	-
	TOTAL CAPITAL	**66.995.213**	**67.100.116**	99,8	16,1
	TOTAL LIABILITIES	**417.323.096**	**400.108.316**	104,3	100,0

On the liability side, deposits and other liabilities to other customers were predominant having a share of 79,3% (in 2017 the share was 79,4%). Deposits and other liabilities to other customers have been increased in comparison to the end of 2017 by 4,2%.

In total consolidated liabilities the Group's total capital accounted for 16,1% (in 2017 the share was 16,8%). Total capital has been reduced relative to the end of 2017 by 0,2%.

Consolidated Balance Sheet as at 30 June 2018 – Members of the Banking Group

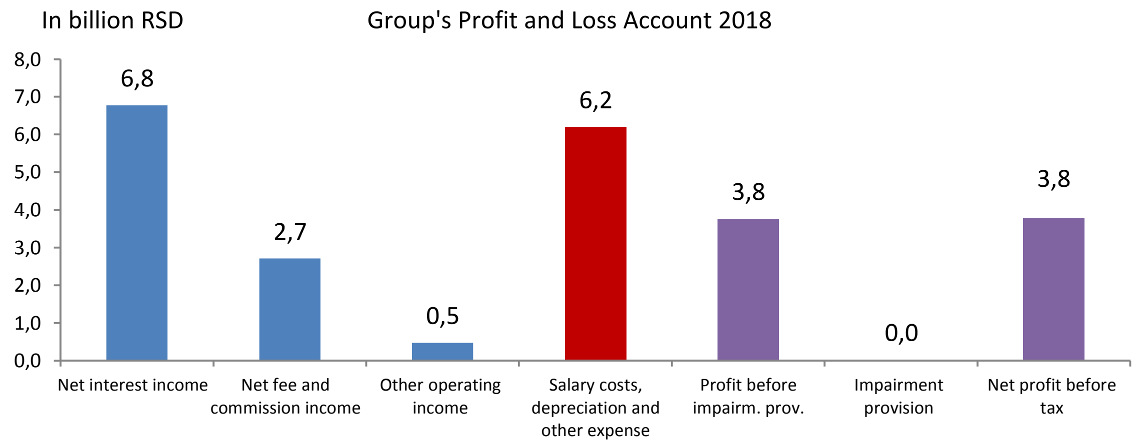
	DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Position / ASSETS *(in 000 RSD)*					
	Cash and assets held with the central bank	54.170.572	2.002.158	6.114.127	-	62.286.857
	Securities	129.375.428	2.229.487	2.378.802	140.681	134.124.398
	Loans to and receivables from banks and other fin. org	14.615.788	663.182	1.216.999	16.094	16.512.063
	Loans to and receivables from customers	162.578.939	8.178.698	15.199.542	-	185.957.179
	Intangible assets	424.268	10.431	29.620	-	464.319
	Property, plant and equipment	5.552.148	298.026	61.004	25	5.911.203
	Investment property	1.922.509	107.430	269.139	-	2.299.078
	Current tax assets	-	-	7.067	6	7.073
	Deferred tax assets	1.404.479	25.886	895	-	1.431.260
	Available- for-sale non-current assets and assets from discontinued operations	241.148	249.568	275.860	-	766.576
	Other assets	6.948.932	530.450	81.753	1.955	7.563.090
	TOTAL ASSETS	**377.234.211**	**14.295.316**	**25.634.808**	**158.761**	**417.323.096**
	Position / LIABILITIES					
	Deposits and other liabilities to banks and other financial org.	4.078.231	212.507	2.373.238	-	6.663.976
	Deposits and other liabilities to other customers	300.439.631	11.753.280	18.632.611	-	330.825.522
	Provisions	1.489.584	144.762	15.604	5.653	1.655.603
	Current tax liabilities	-	-	-	3	3
	Deferred tax liabilities	598.524	27.548	2.537	-	628.609
	Other liabilities	10.373.577	61.534	117.567	1.492	10.554.170
	TOTAL LIABILITIES	**316.979.547**	**12.199.631**	**21.141.557**	**7.148**	**350.327.883**
	Total capital	66.825.523	-	282.537	11.506	66.995.213
	Total capital shortfall	-	124.352	-	-	-
	TOTAL LIABILITIES	**383.805.070**	**12.075.279**	**21.424.094**	**18.654**	**417.323.096**

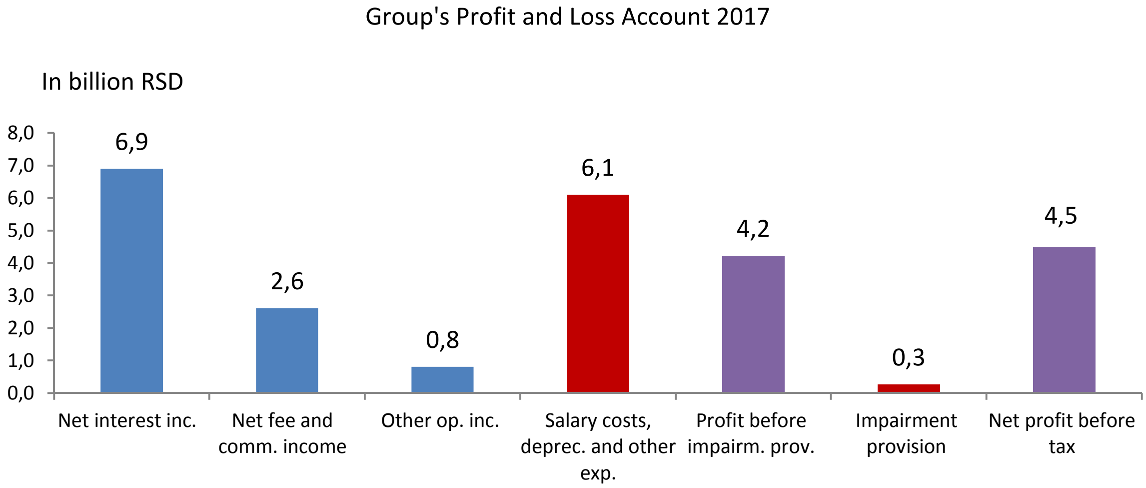
3.4 Consolidated Profit and Loss Account

In the consolidation process it is required to exclude all positions on the individual Profit and Loss Accounts that stem from intra-group transactions: interest, fees, commissions and other income/expenses.

Consolidated Profit and Loss Account for the Period 1 January – 30 June 2018

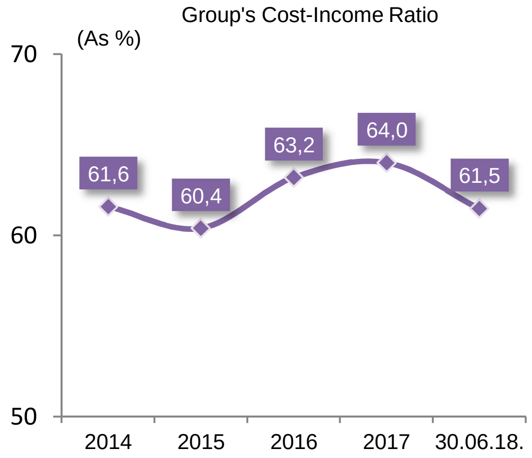
No.	DESCRIPTION	30.06.18.	30.06.17.	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE *(in thousand RSD)*			
1.1.	Interest income	7.340.705	7.908.793	92,8
1.2.	Interest expenses	-566.021	-1.006.934	56,2
1.	**Net interest income**	**6.774.684**	**6.901.859**	98,2
2.1.	Fee and commission income	3.638.124	3.407.989	106,8
2.2.	Fee and commission expenses	-930.110	-794.976	117,0
2.	**Net fee and commission income**	**2.708.014**	**2.613.013**	103,6
3.	Net gains from change in fair value of financial instruments (FI)	51.129	26.355	194,0
4.	Net gains from derecognition of financial instruments (FI) measured at fair value	95.130	60.054	158,4
5.	Net gains/ losses from exchange rate differences and effects of agreed currency clause	482	-10.552	-
6.	Net income/expenses from reduction in impairment of financial assets not measured at fair value through P&L	24.658	265.192	-
7.	Net gain/ loss from derecognition of investments in associated companies and joint ventures		306	-
8.	Other operating income	87.794	96.661	90,8
9.	**TOTAL NET OPERATING INCOME**	**9.741.891**	**9.952.888**	97,9
10.	Costs of salaries, salary compensations and other personal expenses	-2.500.641	-2.520.905	99,2
11.	Depreciation costs	-324.630	-327.779	99,0
12.	Other income	242.023	629.585	38,4
13.	Other expenses	-3.372.719	-3.246.437	103,9
	PROFIT/LOSS (-) BEFORE TAX	**3.785.924**	**4.487.352**	84,4
14.	Profit tax	-	-	-
15.	Gains from deferred taxes	-	1.235.813	-
16.	Losses on deferred taxes	-	-	-
	PROFIT /LOSS (-) AFTER TAX	**3.785.924**	**5.723.165**	66,2

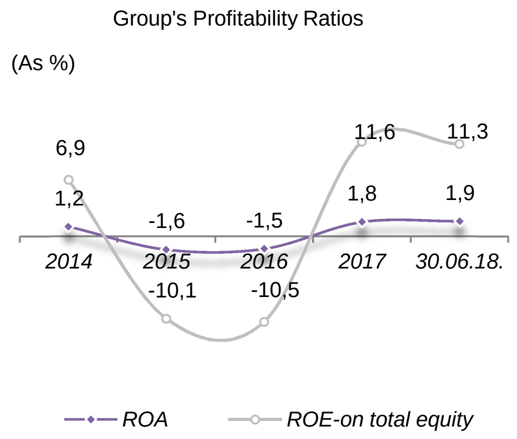




Consolidated profit before tax of KB Group in the period from 01 January to 30 June 2018 amounts to RSD 3.785,9 million while in the same period of 2017 the profit was recorded of RSD 4.487,4 million. Consolidated profit before tax between two reporting periods has been reduced by RSD 701,4 million, or 15,6%. Interest income during the first half of 2018 is decreased in comparison to the same period of 2017 (reduction by 7,2%), as well as interest expenses (reduction by 43,8%), which resulted in decline of net interest income (decline by 1,8%). Consolidated fee and commission income during the first half of 2018 is increased in comparison to the same period of 2017 by 6,8%. Despite the increase in fee and commission expenses by 17,0%, the net fee and commission income is higher by 3,6% compared to 2017. Other operating expenses increased when compared to previous year by 1,7% (RSD 102,9 million).

In 2018 the Group recorded net income from reduction in impairment of financial assets not measured at fair value in the amount of RSD 24,7 million, while in the same period last year net income was higher and amounted to RSD 265,2 million.





Consolidated Profit and Loss Account by Group Members for the Period from 01 January to 30 June 2018

	DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousand RSD)					
1.	Interest income	6.685.158	273.553	381.699	295	7.340.705
2.	Interest expenses	-457.304	-39.594	-69.123	-	-566.021
3.	**Net interest income**	**6.227.854**	**233.959**	**312.576**	**295**	**6.774.684**
4.	Fee income	3.428.836	84.446	114.130	10.712	3.638.124
5.	Fee expenses	-879.962	-17.626	-32.356	-166	-930.110
6.	**Net fee income**	**2.548.874**	**66.820**	**81.774**	**10.546**	**2.708.014**
7.	Net gains from change in fair value of financial instruments	48.751	-	-	2.378	51.129
8.	Net gains from derecognition of financial instruments measured at fair value	94.325	795	-	10	95.130
9.	Net gains/ losses from exchange rate differences and effects of agreed currency clause	4.091	-3.915	305	1	482
10.	Net income/expenses from reduction in impairment of financial assets not measured at fair value through P&L	-28.724	19.741	33.641	-	24.658
11.	Other operating income	77.152	3.116	7.526	-	87.794
I	**TOTAL NET OPERATING INCOME**	**8.972.323**	**320.516**	**435.822**	**13.230**	**9.741.891**
12.	Costs of salaries, salary compensations and other personal expenses	-2.202.516	-132.646	-158.079	-7.400	-2.500.641
13.	Depreciation costs	-284.092	-17.151	-23.382	-5	-324.630
14.	Other income	206.115	34.025	1.881	2	242.023
15.	Other expenses	-3.065.702	-126.897	-176.928	-3.192	-3.372.719
II	**PROFIT BEFORE TAX**	**3.626.128**	**77.847**	**79.314**	**2.635**	**3.785.924**

4. Environmental Investment

By adopting the Policy and Procedure for Environmental and Social Risk Management at the Banking Group level, the Group defined the standards for identification and management of the environmental and social protection risk in the process of approving and monitoring the loans and advances. This document is adequately applied at the Group members' level through incorporation of the bylaws at the level of each member while respecting the local legislation and the internal bylaws of the Group members that are reconciled with the Bank's internal bylaws. Likewise, the Group is developing the activities pertaining to environmental protection and also the protection of human and labour rights, by applying the best practice of sustainable financing. The internal bylaws define also the procedure for solving and providing answers to complaints in relation to direct or indirect impact of the operating activities on environment and social surroundings.

Through the categorization of loans and advances depending on environmental and social risk level, the Group assesses in which percentage the activities that can have harmful consequences for the environment are financed. Also, the Group continuously monitors the extraordinary events with their clients that may have an adverse impact on environment, health or safety, or the community in general and regularly informs thereof the management bodies and the Bank's shareholders.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group does not finance the clients whose main business activity is associated with the manufacturing of or trading in weapons and ammunition, radioactive materials and other technologies that may adversely impact the environment, thus ensuring compliance with the standards of good international practice in this field. Also, the Group operates in compliance with the defined limits of engagement pertaining to the activities: production and trade in alcohol, production and trade of tobacco and tobacco products and gambling activities.

The members of the Banking Group report on monthly basis to the function Risk Management of the Parent Bank and to other responsible business and operational functions on risk levels in terms of impact on environment and social surroundings. In case of exceeding the internal limits the Banking Group members deliver the explanation with the proposal of measures and the plan of activities and the function Risk Management reports to the Bank's Executive Board and the International financial institutions (shareholders) on the subject limit exceeding. Every six months the function Risk Management reports to the Executive Board and the Board of Directors on environmental and social risk management on consolidated basis and the Republic of Serbia and the International financial institutions (shareholders) annually.

5. Significant Events

From 31 December 2017 until the end of June 2018 four General Meetings of Shareholders of the Parent Bank were held. At the General Meeting of Shareholders of the Parent Bank which was held on 29 January 2018 the following decisions were adopted:

1. Decision on Release from Duty and Appointment of the Member of the Board of Directors of Komercijalna banka ad Beograd;
2. Decision on Release from Duty and Appointment of the Chairperson of the Board of Directors of Komercijalna banka ad Beograd;
3. Decision on Adoption of the Strategy and Business Plan of the Bank for the period 2018-2020.

At the General Meeting of Bank's Shareholders, which was held on 14 March 2018 the following decisions were adopted:

1. Decision on Release from Duty and Appointment of the Chairperson of the General Meeting of Shareholders of Komercijalna banka ad Beograd.
2. Decision Amending the Decision on Release from Duty and Appointment of the Chairperson of the Board of Directors of Komercijalna banka ad Beograd.

At the General Meeting of Bank's Shareholders, which was held on 26 April 2018 the following decisions were adopted:

1. Decision on Adoption of the Annual Report on Business Operations of Komercijalna banka ad Beograd and Regular Financial Statements with the Opinion of the External Auditor for the year 2017
2. Decision on Adoption of the Annual Report on Operations and Consolidated Financial Statements of Komercijalna banka ad Beograd Group with the Opinion of the External Auditor for the year 2017
3. Decision on Distribution of Profit from 2017 and Retained Earnings from Previous Years.
4. Information Relating to Article 77 of the Law on Banks .
5. Report in Accordance with Article 78 of the Law on Banks .
6. Decision on Compulsory Purchase of 6 Shares of SWIFT.
7. Decision on Establishing the Remuneration for the Chairperson of the General Meeting of Bank's Shareholders.

At the General Meeting of Bank's Shareholders, which was held on 30 May 2018 the following decisions were adopted:

1. Decision on Release from Duty and Appointment of the Member of the Board of Directors of Komercijalna banka ad Beograd.

Other significant events after the end of the business year in KB Group, and/or in Group members, are disclosed in the Notes to the consolidated financial statements – Events after the balance sheet date.

6. Group's Future Development Plan

Operating strategies and plans for the next period are defined and adopted at the level of individual Group members[16].

Business operations of subsidiaries, the Group members, in the next period will in general be primarily focused on maintaining the stable market share, but also on growth with acceptable level of credit risk. When it comes to potential of lending the retail sector, in the next period the banks, Group members will be focused on financing the creditworthy clients with a sound credit history, financing farms, and/or agricultural holdings in line with creditworthiness, bearing in mind local-regional specifics in agriculture, and also financing of micro clients.
In the upcoming period a cautious loan approval policy will apply to corporate clients, with focus being primarily on the quality of credit portfolio, with enhanced monitoring of clients' business operations, financed projects and received collaterals. The aim is to timely identify all the warning signals that may indicate the inability of clients to settle their obligations, or that may indicate the difficulties in collection of receivables. Strategies of subsidiary banks, Group members for the coming period will still be oriented to placing the funds to small and medium-sized enterprises while speeding up the very process of granting the loans. It is not expected that the scope of NPLs will increase in the next period.

The main pillars of development strategy of **Komercijalna banka Beograd**, the parent bank, in the next three-year period are the following[17]:

- Growth of loans and advances to customers (as a key aspect of the future profitability),
- Control of operational risk in the future period in order to maintain the low level of net expenses related to impairment provisions (because of significant credit losses recorded during 2015 and 2016),
- Improvement – change in structure of clients on the basis of demographics and standards (taking into consideration the development of innovative products) so that besides large

16 In this item of Report unaltered parts are presented from individual Strategies and Business Plans of Group members
17 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Beograd

companies the Bank intends to continue developing the business segment with local self-governments, small and medium-sized enterprises, as well as with clients from neighbouring countries,

- Increase in share of fee and commission income compared to interest income (the Bank will place more focus on fee and commission income given the tendency of falling interest rates and the implementation of digitisation and other development initiatives),
- Control of the amount of operating expenses and further improvement of the efficiency in business operations with a view of reducing operating expense ratio against income during the entire plan period (CIR),
- Preserving the adequate capital position, with payment of cumulative dividends from previous years and dividends arising from the planned profit in the next three-year period.

The main operating goals of **Komercijalna banka Podgorica** for the next plan period are as follows[18]:

- stable and sustainable business development.
- continuous improvement and portfolio target diversification.
- continuous solidification of market share.
- active solving of problems related to acquired assets and NPL.
- profitability boosting.
- increasing the network efficiency through reorganisation of business operations.
- brand strengthening.

For the period 2018-2020 KB Podgorica plans the following:

- Preparation of action plans that include the time component of the sale of the acquired real property by harmonising the results of negotiations, passing the decisions by the decision-making authorities, preparation of legal documentation (consents and approvals by the fiduciary debtors, purchase and sale agreements which require the consent of the Bank as the owner of the property, etc.), advertising the sale of real estate in accordance with the Law on Property-Legal Relations, etc.,
- Active communication with clients relating to acquired assets with a view of collecting the positions of the acquired assets through loan restructuring, while providing the acceptable mortgage collateral,
- Collection of the positions of acquired assets through granting the consent by the fiduciary debtors whereby the Bank will be able to freely advertise and sell the acquired real estate.

Retail Operations
The action plan of Retail Banking Division anticipates a number of activities aimed at eliminating the barriers and enhancing the conditions for improving the business operations and achieving the planned goals in the period 2018-2020:

- Further market segmentation activities for the purpose of identifying highly creditworthy clients, (which will result in changing the name of reference lists, principles and conditions of being the member of the lists) and ensure the compliance of the lists with the product catalogue,
- Improvement and simplification of product catalogues, as well as transferring decision-making about catalogue changes to the Bank’s level or organisational part (OP) due to efficiency, speed and competition,
- Simplification and improvement of the credit process for the purpose of acceleration, efficiency and competitiveness,
- Distribution of credit portfolios for all employed sales specialists, who will take care of both sales and collection and whose performance will be transparent and visible through weekly reports,
- Decision-making speed and significantly shorter deadlines for the operationalization of all related divisions, units and bodies, for the purpose of increasing the efficiency in decision-making for issues under the competence of Retail Banking Division,
- Creating appropriate actions aimed at targeted demand,
- Adaptation and reconstruction of branch offices,
- Relocation of branch offices,

18 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Budva

- Expansion of the sales network through the opening of lending offices, i.e. sales specialists on the field, with minimal investments in areas that are acceptable and attractive for the Bank from a commercial and income generating point of view - beneficial way of the bank's development orientation, which is necessary in the situation of presenting negative business results and constant closing, 6 branches in a short time period.

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

- Tourism and catering;
- Trade and services;
- Production and manufacturing;
- Construction and
- Public sector.

Priority products, which are backbone for realization of the plan for corporate granted loans' growth, are the following:

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

Corporate Banking Division will continue, in the upcoming period, to develop and improve its operations through the new business approach to the clients, based on constant presence on the market, applying the methods of consultation sales and assertive communication, with the aim of presenting the Bank as strategic partner for long-term business cooperation.
In 2018 the Bank plans to additionally intensify the cooperation with the Investment and Development Fund of Republic of Montenegro, strategic domestic partner in funding sources for certain long-term projects. This cooperation would provide for better maturity match of source of funds and Bank's assets, and thus create a competitive advantage in terms of the level of the fixed interest rate, prescribed for this type of loans.

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

As strategic objectives for the future period of **Komercijalna banka Banja Luka** the following are defined[19] **:**

1. Maintenance and improvement of the status of a stable financial institution with business volume growth; strengthening of market positioning, while providing support to projects that are of strategic importance for development of the economy of the Republic of Srpska and Bosnia and Herzegovina;
2. Expansion of customer base with market identification of the Bank's services tailored to the needs of theirs users with active marketing activities;
3. Active loan portfolio management and supporting the efficiency of the process for identification and supervision of the initial level of exposure to risk or risks associated with already approved loan exposures, which will enable the portfolio structure with controlled risk;
4. Growth of non-interest income, bearing in mind low interest rates in the region, as well as the downward trend in interest rates;
5. Increase of loan portfolio in the corporate and retail segment, through lending the segment of low credit risk, with continued focus on cross selling,

19 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Banja Luka

6. Expansion of the business network, or strengthening of Bank's presence in areas with high lending potential;
7. With achievement of the above goals, concurrent control of business expenses, particularly operating expenses, with the aim of accomplishing better business efficiency.

In the upcoming period the Bank's objectives in retail operations are the following[20]:

- Increasing the activities and maintaining the further growth of the Bank in field of deposit operations;
- Introduction of product packages for retail clients, which would enable the clients to use a number of different Bank's products at lower prices within the selected package, while the Bank, on the other hand, would increase the cross-selling of products;
- Realisation of offer-favourable conditions for the sale of products (housing and non-purpose loans, credit cards, electronic services) in order to create preconditions for the growth of sales;
- Introducing new products, which will be carried out by complying with the needs and capabilities of clients and the performed review of market conditions;
- Active approach to tracking individual loans depending on the initial risk assessment of initial sales;
- Stressing the proactive sales of products by employees in the Division and the Bank's business network, both in the Bank's premises, and also through field visits to companies and making presentations by which the Bank's products would be presented to the employees;
- Enhanced cooperation with Marketing and Product Development Unit, with the aim of adequate and timely promotion of products;
- Improvement of business efficiency by advancement of policies, procedures and guidelines.

In the segment of corporate banking operations the main activity of the Bank will be increasing the number of clients and increasing the loan portfolio through greater diversification of loans in smaller amounts. The target segment will be enterprises from the manufacturing, trade and service industries. For the future period the enhanced sales activity is planned, which will be focused on segment of micro, small and medium-sized enterprises.

In the segment of corporate deposit management the future Bank's policy is focused on achieving the effectiveness, whereby the activities are oriented on[21]:

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

In the observed future period (2018-2020) the trend of stable interest margin is planned. The policy of interest rates for 2018 is oriented to reduction of borrowing interest rates, which will be achieved by individual approach to certain client groups. In 2019 and 2020 the stabilisation of movements in both lending and borrowing interest rates is envisaged with slight increase in interest margin[22].

20 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Banja Luka
21 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Banja Luka
22 Strategy and Business Plan 2018-2020 of Komercijalna banka ad Banja Luka

The business goals of the Company **KomBank INVEST Beograd** are still the strong business growth, accompanied with the increase of investment funds and operating income of the Company. In the coming three-year period the Company will aim to improve the level of business, increase the assets of investment funds and also to expand the investor base of those who invest in investment funds[23]. The primary mission of the Company is to improve the business while achieving positive business results. In order to accomplish this mission it is necessary to fulfil three key objectives[24]:

1. Considerable increase of income arising from fund management.
2. Quality management and maintenance of the Company's expenses in the planned zone.
3. Maintaining the stable financial income generated by the Company.

As the main medium-term goal the constant growth of total revenues and better positioning of investment funds in the domestic market is being set. Business cooperation has been established between the Parent Bank and the Investment Fund Management Company in sales of investment units which should contribute to an increase in the funds' assets, and enable the Company to increase the operating income in the coming years.

Planned Operating Performance by Group Members in the Coming Three Years:

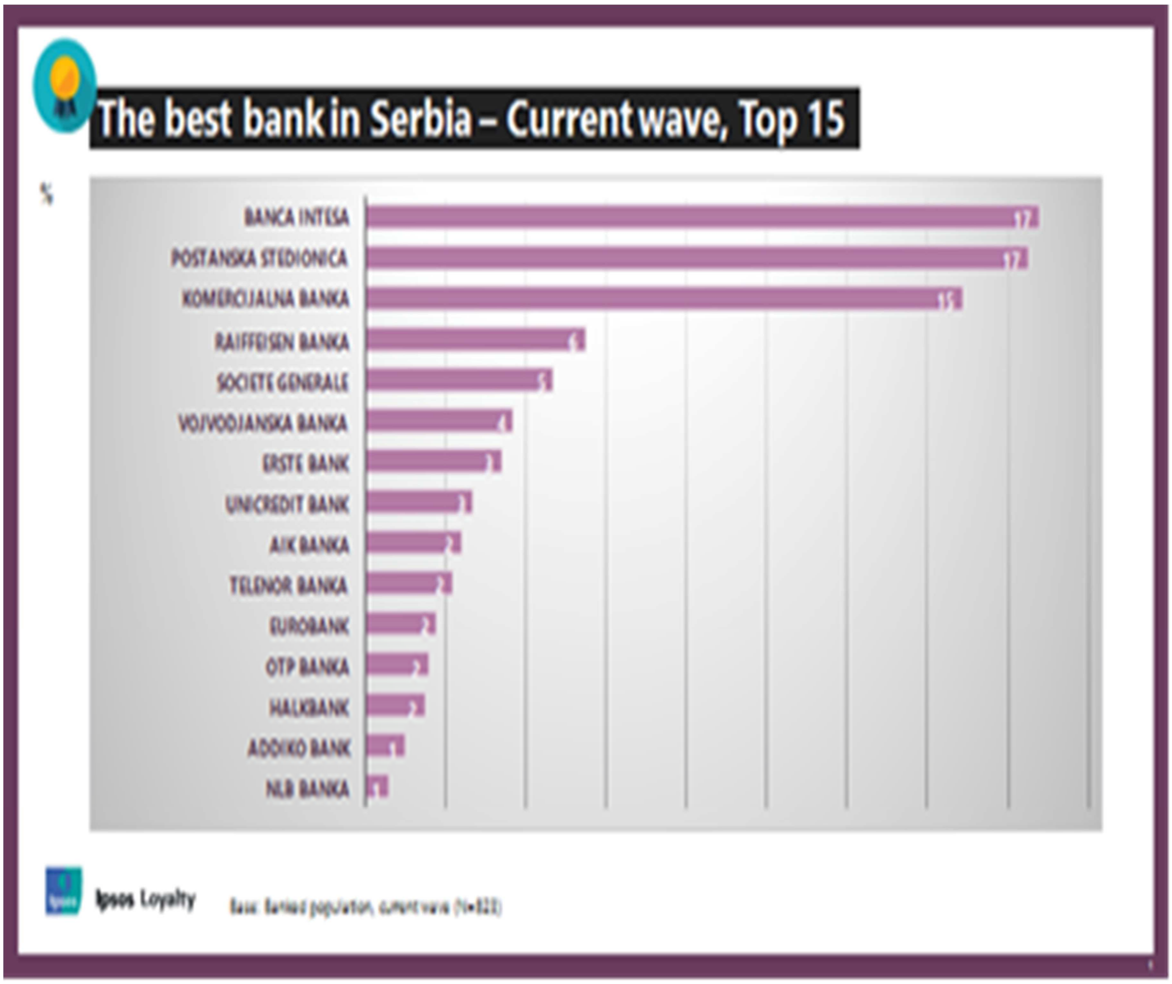
GROUP MEMBERS	KB BEOGRAD			KB BUDVA			KB BANJA LUKA			KomBank INVEST		
Plan as %	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Asset growth	*3,8*	*5,1*	*5,9*	*0*	*10,0*	*10,0*	*14,3*	*10,0*	*10,0*	-	-	-
ROE	*11,2*	*11,2*	*11,3*	*2,5*	*4,0*	*5,0*	*2,3*	*3,0*	*4,3*	*5,7*	*7,9*	*10,2*
ROA	*1,9*	*1,9*	*1,9*	*0,4*	*0,6*	*0,7*	*0,4*	*0,5*	*0,6*	*5,6*	*7,7*	*10,0*
Cost/Income ratio	*57,8*	*56,2*	*54,7*	*89,8*	*82,6*	*77,5*	*79,6*	*76,9*	*72,6*	-	-	-
NIM (Interest margin on average assets)	*3,3*	*3,3*	*3,2*	*4,8*	*4,9*	*4,9*	*2,9*	*3,0*	*3,0*	-	-	-

23 Business plan of Investment Fund Management Company 2018-2020
24 Business plan of Investment Fund Management Company 2018-2020

7. Research and Development

The Banking Group continuously monitors the activities in the banking product market, while using the available staff and also hiring the specialized, independent agencies for public opinion research.

Market Survey: IPSOS Strategic Marketing, Banking Omnibus, May 2018



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

Survey results inform business decisions, in particular the important ones that relate to the development of new products and services and improvement and modification of the existing ones.

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

8. Performance of Subsidiaries before Consolidation

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

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

- The accounting regulations of the Republic of Serbia,
- Internal bylaws of the Parent Bank - Komercijalna banka AD Beograd and
- Relevant IASs and IFRSs.

Reclassified Individual Balance Sheets of the Group Members before Consolidation as at 30 June 2018

DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST
(in thousand RSD)				
Cash and assets held with central bank	54.170.572	2.002.177	6.116.712	9
Securities	129.375.428	2.229.487	2.378.802	140.681
Loans to and receivables from banks and other financial organisations	15.330.200	1.036.359	1.335.305	16.094
Loans to and receivables from customers	162.578.939	8.178.698	15.199.542	-
Investment in subsidiaries	5.480.888	-	-	-
Intangible assets	424.268	10.431	29.620	-
Property, plant and equipment	5.552.148	298.026	61.004	25
Investment property	1.922.509	107.430	269.139	-
Current tax assets	-	-	7.067	6
Deferred tax assets	1.404.479	25.886	895	-
Available- for-sale non-current assets and assets from discontinued operations	241.148	249.568	275.860	-
Other assets	6.949.167	530.449	81.753	1.955
TOTAL ASSETS	**383.429.746**	**14.668.511**	**25.755.700**	**158.770**
Deposits and other fin. liabilities to banks, other financial org. and the central bank	4.572.328	217.275	3.082.881	-
Deposits and other liabilities to other customers	300.439.631	11.753.280	18.632.611	-
Provisions	1.489.584	144.762	15.604	5.653
Current tax liabilities	-	-	-	3
Deferred tax liabilities	598.524	27.548	2.537	-
Other liabilities	10.373.577	61.650	117.569	1.608
TOTAL LIABILITIES	**317.473.644**	**12.204.515**	**21.851.203**	**7.264**
Total capital	65.956.102	2.463.996	3.904.497	151.506
TOTAL LIABILITIES	**383.429.746**	**14.668.511**	**25.755.700**	**158.770**

NOTE: For the purpose of consolidation reclassification is carried out of the positions in individual (statutory) financial statements of Group members that affect the adjustment of balance sheet total and the results in P&L stated in statutory statements. The adjusted (reclassified) financial statements are the initial balance sheet reports and the positions that are further subject to consolidation.

Reclassified Individual Profit and Loss Accounts of the Group Members before Consolidation for the Period from 01 January to 30 June 2018

DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST
(in thousand RSD)				
Interest income	6.687.184	273.553	381.699	295
Interest expenses	457.304	39.594	71.148	-
Net interest income	**6.229.880**	**233.959**	**310.551**	**295**
Fee and commission income	3.433.346	84.446	114.497	10.712
Fee and commission expenses	880.328	18.736	35.183	740
Net fee and commission income a	**2.553.018**	**65.710**	**79.313**	**9.972**
Net gains from change in fair value of financial instruments	48.751	-	-	2.378
Net gains from derecognition of financial instruments measured at fair value	94.325	795	-	10
Net gains/ losses from exchange rate differences and effects of agreed currency clause	-1.060	3.328	2.124	1
Net income/expenses from impairment of financial assets not measured at fair value through P&L	-28.724	19.741	33.641	-
Other operating income	77.218	3.116	7.526	-
TOTAL NET OPERATING INCOME	**8.973.408**	**326.648**	**433.155**	**12.656**
Costs of salaries, salary compensations and other personal expenses	-2.202.516	-132.646	-158.079	-7.400
Depreciation costs	-284.092	-17.151	-23.382	- 5
Other income	206.115	34.025	1.881	2
Other expenses	-3.065.702	-126.963	-176.928	- 3.192
PROFIT/LOSS (-) BEFORE TAX	**3.627.213**	**83.913**	**76.647**	**2.061**

9. Financial Instruments Relevant for Assessment of Group's Financial Position

At the end of the first half of 2018 the following financial instruments (positions) are crucial for the assessment of the Group's financial position: loans and receivables from customers, securities, deposits and liabilities to other customers and capital.

Position loans and receivables from customers accounted for 44,6% of total consolidated assets and those are increased by RSD 11.715,0 million in comparison to the end of 2017. A detailed structure of the position loans and receivables from customers is presented in the note to consolidated financial statements. Securities accounted for 32,1% of total consolidated assets and are increased by RSD 12.601,8 million compared to 2017 and they mainly related to investments of the Parent Bank in securities of the Republic of Serbia (detailed structure is stated in the note to the consolidated financial statements).

On the other hand, deposits and other liabilities to other customers accounted for 79,3% of consolidated liabilities and are increased by RSD 13.247,7 million. Deposits were the main funding source of subsidiary banks and the Parent Bank, while the Parent Bank also repaid the subordinated debt in December 2017 (detailed structure is stated in the Notes to consolidated financial statements).

Group's capital accounted for 16,1% of consolidated liabilities and has been reduced by RSD 104,9 million.

Group members are well capitalized, and the Group's capital adequacy ratio stands at 25,8% and is considerably above the prescribed limit (8%+combined (capital) buffer requirement).

10. Risk Management

The Group has recognised the process of risk management as a key element of managing its operations, as exposure to risk stems from all operating activities and is inherent to banking operations and the same is managed through risk identification, measurement, assessment, monitoring, control and mitigation and reporting on risks, i.e. through risk limitation, as well as through reporting in accordance with the strategies and policies.

The Group has put in place a comprehensive and reliable risk management system, which includes: risk management strategies, policies and procedures; individual risk management methodologies; an appropriate organisational structure; an effective and efficient process for managing all risks to which the Group is or may be exposed to in its business operations, an adequate internal control system; an appropriate information system; and a sufficient internal capital adequacy assessment process. Also, another integral element of the risk management system is the Group's Recovery Plan, as a mechanism for early detection of the situation of a severe financial disturbance in which the Group can undertake measures, or apply the defined recovery options in order to prevent entry into the early intervention phase in which the regulator has the active participation, or improvements in the already deteriorated financial situation.

The Group's Risk Management Strategy and Capital Management Strategy set out the following objectives within the risk management system: minimising adverse effects on financial result and capital while respecting the defined framework of acceptable risk levels; maintaining the required level of capital adequacy, developing the Group's activities in line with its business potential and market development to achieve competitive advantages; diversifying the risks to which the Group is exposed, maintaining the NPL share in total loans up to the level acceptable for the Group, maintaining the liquidity coverage ratio above the level prescribed by regulations and internal limits.

The Group permanently monitors all the announcements and amendments to regulatory framework, analyses the impact on risk level and takes measures for timely compliance of its operations with the new regulations. Through a clearly defined process of introducing new and considerably altered products, services and activities related to processes and systems the Group analyses their impact on future risk exposure in order to optimize its income and expenses for the assessed risk, and to minimize any potential adverse effects on Group's financial result.

Detailed view of goals and risk management policies of the Group is presented in Item 4 Note to consolidated financial statements.

Credit Risk Exposure Protection Policy

To safeguard against credit risk, the Group applies credit risk mitigation techniques by obtaining acceptable security instruments (collaterals) as a secondary source of loan recovery. The Group strives to deal with creditworthy clients, whereby assessing the creditworthiness at the time of loan application and by regular monitoring of debtors, loans and collaterals in order to be able to timely undertake relevant activities in debt collection procedures.

The types of collaterals depend on the assessment of credit risk level of the debtor and are determined on the case-by-case basis and they are obtained after the signing of an agreement, but before loan disbursement.

By its internal bylaws the Group regulated the evaluation of credit protection instruments and management of these instruments.

When collateral valuation is conducted, the Group hires the authorized valuers, in order to reduce to the minimum possible extent the potential risk from the unrealistic valuation, and the real estate, goods, equipment and other movable property that are pledged must be insured with the insurance company acceptable for the Group, with the insurance policies endorsed in its favour.

To safeguard against changes in the market value of collateral, the appraised value is adjusted for defined impairment percentages according to the type of collateral and location of the property, which are subject to regular review and revision.

The Group pays special attention to monitoring its collaterals and undertakes activities aimed at providing the new valuations, as well as obtaining the additional collaterals, primarily for any clients with identified problems in business operations, as well as for any clients whose collateral coverage ratio has been reduced due to a decline in the value of the obtained collaterals..

For the purpose of adequate risk management, the Group conducts activities that include analyses of credit risk when approving the loan and establishment of the system for monitoring, preventing and managing the risk loans, including adequate identification of potentially risky clients (Watch List); it mitigates the credit risk in case of clients with the above status, and also undertakes measures and actions in order to protect the interests of the Group and to prevent the negative effects on its financial result and capital.

The Group continuously improves the risk management system that relies on the postulates of the independence of the risk management function from the risk taking centres, the timeliness of information flows that support the decision-making process, as well as transparency and accuracy of the information provided.

In the first half of 2018 the Group was focused on improvement of loan portfolio quality through reduction of occurrence of the new non-performing loans and by solving the problems of clients that have already been recognized as non-performing; it also conducted the activities aimed at reducing the non-performing loans (improved collection, sales/transfer, and/or assignment, as well as write off by transfer of fully impaired receivables to off-balance sheet records, in accordance with the Operational Plan, with measures for achieving the goal relating to the level of non-performing assets of the Parent Bank). At the start of 2018 the Group harmonized its internal bylaws (methodologies and procedures) according to amendments to the regulations of the National Bank of Serbia in the field of accounting and financial reporting, by which the obligation is introduced of applying the International Financial Reporting Standard 9 in banks (IFRS 9). The above amendments prescribe the obligation of the banks to conduct, as of 01.01.2018, the calculation of impairment in accordance with IFRS 9. In line with IFRS 9, the Group members have adopted the new Methodology for assessment of impairment of balance sheet assets and probable loss on off-balance sheet items, which has been applied as of 01.01.2018. Instead of the concept of „incurred losses“, the concept of „expected losses“ is introduced, including the impact of the expected movement of macroeconomic variables on the future trend of loss probability based on statistically proven interdependencies, the portfolio differentiates to three levels (level 1 – PL clients without identified credit risk deterioration, level 2 – PL clients with identified credit risk deterioration, level 3 – NPL clients). Country exposure (the largest share is that of securities portfolio) is also impaired, and permanent investments, and/or stakes (excluding the permanent investment in subsidiaries) are valued at fair value which led to abolition of the corresponding impairment provisions in balance sheet, or reducing the gross value of stakes to their net value.

The total effect of the first implementation of IFRS 9 amounts to RSD 1,29 billion, of which RSD 0,2 billion accounts for impairment of exposure to the Republic of Serbia and the National Bank of Serbia, mainly on the basis of securities portfolio. The effect of the first implementation of IFRS 9 is recorded as debited to retained earnings from previous years. The differences in book values of financial assets that arise from implementation of IFRS 9 the Group recognized within the capital as at 01 January 2018.

The trend of impairment provisions (in P&L), after the effects of the implementation of IFRS 9, in the first half of 2018, was impacted by the growth with the Parent Bank, mostly due to increase of engagement with corporate clients and the growth of risky loans in retail sector. In the same period, with Group members, the impairment provisions are reduced in real terms on account of regulation of risky loans by means of collection and takeover of collaterals. In its operations, the Group is exposed in particular to the following types of risk:

- Credit risk and related risks;

- Liquidity risk;
- Market risk;
- Interest rate risk in the banking book;
- Operational risk;
- Investment risk;
- Large exposure risk, and
- Country risk, as well as any other risks that may arise in the Group's operations

Credit Risk Exposure

Credit risk is the possibility of the occurrence of negative effects on the financial result and capital of the Group caused by a debtor's failure to settle its liabilities towards the Group's members. Credit risk is determined by the debtor's creditworthiness, his timeliness in settling liabilities to the Group members and the quality of collateral, or security instrument.

The acceptable level of exposure to credit risk for the Group is in line with the defined Risk Management Strategy and depends on the structure of the Group's portfolio on the basis of which it is possible to limit the negative effects on financial result and capital of the Group, while minimizing capital requirements for credit risk, settlement/delivery risk based on free deliveries, counterparty risk, dilution risk with a view of maintaining capital adequacy at acceptable level. The banks, Group members, manage the credit risk at the client level, group of related parties and at the level of the entire loan portfolio. Likewise, they approve the loans to clients (legal entities and private individuals) that are assessed by the Group members as creditworthy, by performing the analysis, or quantitative and/or qualitative measurement and assessment of credit risk, or the financial position of the debtor. The process of credit risk measurement is based on measuring the risk level assigned to individual loans according to the internal rating system and in accordance with the applicable regulations. Through monitoring and control of its portfolio as a whole and by specific segments, the Group makes comparisons with earlier periods, identifies trends and determines the causes for changes in credit risk levels. The Group also monitors asset quality indicators (NPL trends, NPL coverage ratio by impairment provisions, etc.), as well as exposure according to the regulatory and internally defined limits. The process of loan quality monitoring allows the Group's members to assess the potential losses as a result of the risks to which they are exposed and to undertake appropriate corrective measures and actions.

Exposure to Liquidity Risk

The liquidity risk is the possibility of the occurrence of negative effects on financial result and capital of the Group due to inability of Group members to settle their liabilities as they fall due, and to obtain liquid assets at short notice without major expenses. Liquidity risk manifests itself as difficulty in settling the Group's liabilities as they fall due in case of insufficient liquidity reserves and the inability to cover the unexpected outflows of other liabilities.

In their operations the Parent Bank, as well as Group members, adhere to the core principles of liquidity, by generating a sufficient level of liquid assets to cover their liabilities incurred in the short term, i.e. they adhere to the principle of solvency by forming an optimum structure of own and borrowed funding sources and forming sufficient liquidity reserves level without jeopardising the planned return on equity.

Liquidity risk also manifests itself as inability of the Group to convert certain parts of its assets into liquid assets on short notice. The Group conducts analysis the funding risk and market liquidity risk. The liquidity problem from funding aspect relates to the structure of liabilities, or obligations and manifests itself as a potentially significant share of unstable sources or short-term sources or their concentration. The funding liquidity risk is in fact the risk that the Group would not be able to settle its obligations as a result of withdrawal of unstable funding and/or inability to obtain new funding. On the other hand, liquidity risk also manifests itself as a deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices.

In accordance with the Decision of the National Bank of Serbia on Liquidity Risk Management by Banks, which has applied as of 30 June 2017, the Parent Bank, along with the Group members, adjusted their operations in part of the provisions of regulation that relate to liquidity coverage ratio. The Group complies with the regulatory and internally define limits.

The Parent Bank, the same as Group members, actively undertakes preventive measures with the aim of minimizing the exposure to liquidity risk.

Exposure to Market Risks

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

The Group is exposed to foreign exchange risk, which manifests itself as the possibility of occurrence of negative effects on financial result and capital due to exchange rates volatility, changes in the value of national currency against the foreign currencies or changes in the value of gold or other precious metals. To minimise its exposure to foreign exchange risk, the Group diversifies the currency structure of its portfolio and the currency structure of liabilities and matches open positions by specific currencies, in accordance with the principle of maturity transformation of assets. During 2018, the Group complied with the regulatory foreign exchange risk ratio, which is set at 20% of regulatory capital.

Exposure to Interest Rate Risk

Interest rate risk is the risk of the occurrence of negative effects on financial result and capital of the Group on the basis of positions from the banking book due to adverse changes in interest rates. The Parent Bank and the Group members comprehensively and timely identify the causes of any current exposure to interest rate risk and assess the factors of future exposure to this risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.
The aim of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of its impact on financial result and economic value of equity by applying an appropriate policy of maturity matching in the repricing period and by matching sources of financing with loans by level of interest rates and maturity.

Exposure to Operational Risks

Operational risk is a risk of possible occurrence of negative effects on financial result and capital of the Group due to omissions in the work of employees, inappropriate internal procedures and processes, inadequate management of information and other systems in the banks-the Group members, and also due to unforeseeable external events. Operational risk also includes legal risk, which is a risk of occurrence of negative effects on the Group's financial result and capital due to lawsuits or out-of-court proceedings. The Group undertakes measures and actions to mitigate operational risks and proactively respond to potential operational risk events through continual monitoring of all activities by implementing an appropriate and reliable information system the use of which improves business practice and optimises the Group's business processes. To minimise legal risk and its impact on financial result, the Group continues improving its business practice in terms of timely provisioning for lawsuits against the Group's member banks, and according to an assessment of anticipated future loss on this basis.

Investment Risk

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

Large Exposure

Large exposure of the Group to a single person or a group of related parties, including the Group's related parties, is the exposure whose value is at least 10% of the Group's capital. In the first half of 2018, the Parent Bank and the Group member banks complied with the regulatory ad internally defined exposure limits

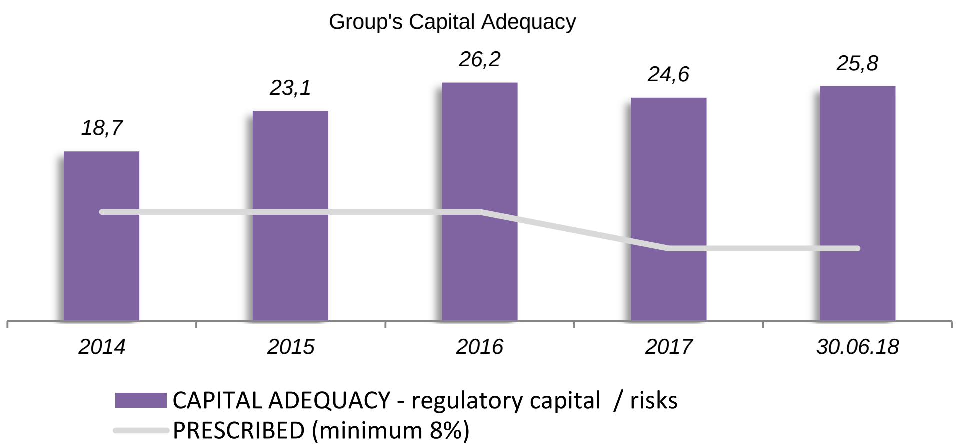
Exposure to Country Risk

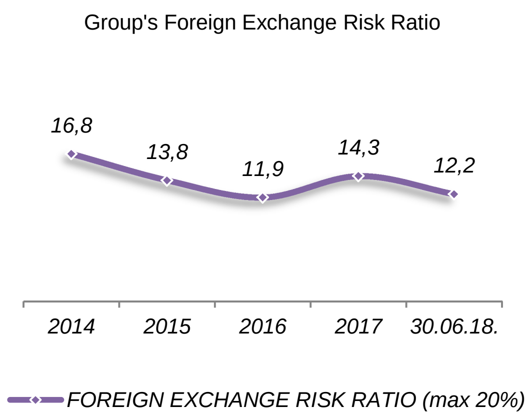
Country risk is a risk that relates to the country of origin of a person to whom the Group is exposed, i.e. the risk of possibility of occurrence of negative effects on the Group's financial result and capital due to the Group's inability to collect its receivables from debtor for reasons associated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

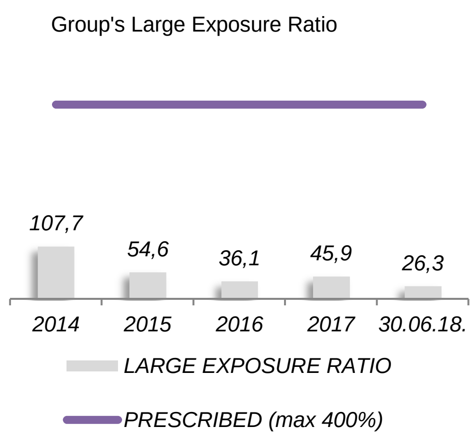
Regulatory Requirements for KB Group

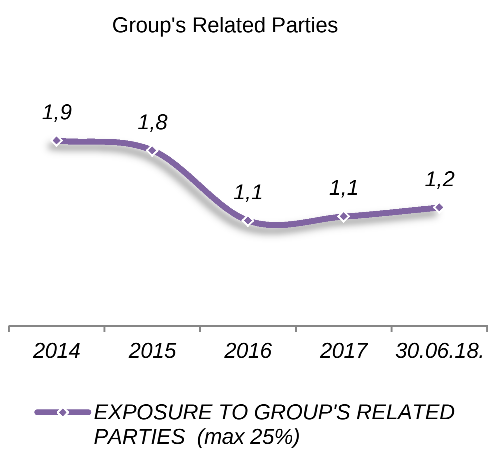
According to regulations of the National Bank of Serbia the following shall be determined on a consolidated basis for a banking group:

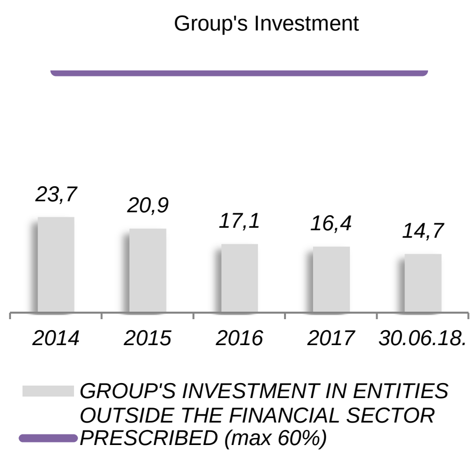
- Capital adequacy ratio,
- Large exposure,
- Investment in other legal entities and fixed assets,
- Opened net FX position
- Liquidity coverage ratio and other.


Group's Capital Adequacy
18,7
23,1
26,2
24,6
25,8
2014
2015
2016
2017
30.06.18
CAPITAL ADEQUACY - regulatory capital / risks
PRESCRIBED (minimum 8%)


Group's Foreign Exchange Risk Ratio
16,8
13,8
11,9
14,3
12,2
2014
2015
2016
2017
30.06.18.
FOREIGN EXCHANGE RISK RATIO (max 20%)


Group's Large Exposure Ratio
107,7
54,6
36,1
45,9
26,3
2014
2015
2016
2017
30.06.18.
LARGE EXPOSURE RATIO
PRESCRIBED (max 400%)


Group's Related Parties
1,9
1,8
1,1
1,1
1,2
2014
2015
2016
2017
30.06.18.
EXPOSURE TO GROUP'S RELATED PARTIES (max 25%)


Group's Investment
23,7
20,9
17,1
16,4
14,7
2014
2015
2016
2017
30.06.18.
GROUP'S INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR
PRESCRIBED (max 60%)

11. Corporate Social Responsibility of the Group

Komercijalna banka AD Beograd, the Parent Bank, pays special attention to the activities pertaining to corporate social responsibility area (CSR). This segment is of particular importance to us, because we are aware of its impact on customers' trust and corporate image. CSR activities have been carefully selected and the Group has actively collaborated with its partners in their implementation.

Komercijalna banka Beograd continued cooperation with B92 Fund in the campaign of equipping the maternity wards in Serbia - „Together with babies". For each transaction made by payment and credit cards of Komercijalna banka, certain funds are allocated for the purchase of necessary equipment for maternity wards and paediatric services of health centres in Serbia. According to agreed plan in 2018 the medical equipment for maternity and health facilities in Aranđelovac, Petrovac na Mlavi, Ćuprija and Tutin will be purchased.
Since the beginning of the year seven exhibitions of paintings, graphics, photographs, calligraphy, fashion design and sculptures were held in the gallery space of Kombank Art Hall.

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

Corporate Social Responsibility and the aspiration to help and support all the projects that contribute to the wider community is an indispensable part of the activities of Komercijalna banka AD Budva (as of 04 July 2018 Komercijalna banka AD Podgorica). In 2018 the Bank donated a valuable apparatus to the Centre for Pathology of the Clinical Centre of Montenegro. The microscope of renowned „Leica" brand has the most up-to-date optics adapted to the work of doctors, pathology specialists. This donation will improve the quality of the analysed samples and will contribute to the faster and more precise work of the Centre. Also, in the year in which it celebrates 25 years of existence and business operations in Montenegro the Bank has signed the Cooperation Agreement with the Faculty of Economics in Podgorica with the aim to improve, with the joint activities within this cooperation, the knowledge and skills of the students in order to better prepare themselves for labour market. The cooperation includes a wide range of activities such as organizing joint professional discussions and forums, visits of Bank's representatives to the Faculty and vice versa, joint design and development of studies, professional practice for students of the Faculty of Economics in the Bank, as well as the training of lecturers, trainers and employees on both sides.

Within this cooperation the Bank awarded 26 best students with cash prizes, and 6 best students of the final year were awarded with the paid practice in the business sector of their choice.

In addition to the above, Komercijalna banka Podgorica continued in 2018 the CSR activities that have been continuously implemented for many years, and has supported a number of sports clubs, as well as individuals who have achieved notable results in the field of sports, science and art, and helped a certain number of citizens who requested financial assistance for health treatments.

In 2018 Komercijalna banka AD Banja Luka, as a socially responsible company launched various projects with the Faculty of Economics with the aim of providing support to professional development and training of young people. In this regard, the Bank provided an opportunity for professional training of students, and those students who during the engagement demonstrate a high level of motivation, commitment and dedication in fulfilling their work tasks, will get the opportunity to find employment and to build the career in Komercijalna banka. Also, in the past period the Bank financially supported and awarded the best students during the organized campaigns and conferences.

Funds were allocated for the donation of literary competition for all secondary school students in the Republic of Srpska organized by the General Consulate of Serbia in Banja Luka on the occasion of marking the Statehood Day of Serbia – Temple.

The Bank helped organize the humanitarian concert „Autism Talking to the Heart“ for children with autism, as well as the manifestation „Games Without Borders for Children in BiH“, whose goal is to improve the quality of life of children and young people, by improving their social inclusion in all spheres of society that are important for their growth and development.

Corporate Governance Rules

Corporate governance rules are based on the relevant legislation (Law on Banks and Law on Companies). The Corporate Governance Code sets out the principles of corporate practice which must be observed by corporate governance bearers, and/or bodies in their work. The aim of the Code is to introduce good business practices and establish high corporate governance standards, which should reinforce the trust of shareholders, investors, clients and other stakeholders. A good corporate governance practice essentially ensures consistency of the control system, protection of shareholders' interests, timely provision of all relevant information on operations and full transparency through public access to companies' financial statements.
In its operations, Komercijalna banka AD Beograd, as the Parent Bank applies the Corporate Governance Code of the Serbian Chamber of Industry and Commerce adopted by the Assembly of the Serbian Chamber of Industry and Commerce, in accordance with the Decision on Implementation of the Corporate Governance Code of the Serbian Chamber of Industry and Commerce passed by the Executive Board of Komercijalna banka AD Beograd on 9 April 2013. Text of the Corporate Governance Code has been published on the web page of Komercijalna banka AD Beograd (http://www.kombank.com/korporativno-upravljanje) and on website of Serbian Chamber of Commerce.

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

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

КомBank INVEST AD Beograd is organized as a single-element non-public joint-stock company with bicameral management system. In order to provide for unbiased, transparent and responsible corporate behaviour, the Company applies the Operating Rules approved by the Securities Commission in accordance with Article 17 of the Law on Investment Funds (RS Official Gazette, nos. 46/2006, 51/2009, 31/2011 and 115/2014), Rules of Conduct and Professional Ethics that are complied with those of the parent company, Policy of Managing Conflict of Interest and Personal Transactions and other.

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

Signed on behalf of Komercijalna banka a.d. Beograd

Deputy Director of Controlling and Planning Division	Member of the Bank's Executive Board
Igor Krsmanović	Miroslav Perić

BALANCE SHEET CONSOLIDATED

as at 30.06.2018.

in RSD thousand

ITEM	ADP code	Amount 30.06. Current year	31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	0001	62.286.857	56.076.748
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	-	-
Securities	0004	134.124.398	121.522.580
Loans and receivables from banks and other financial organisations	0005	16.512.063	30.233.555
Loans and receivables from clients	0006	185.957.179	174.242.139
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	-	-
Intangible investments	0011	464.319	498.387
Property, plant and equipment	0012	5.911.203	6.017.200
Investment property	0013	2.299.078	2.380.564
Current tax assets	0014	7.073	5.622
Deferred tax assets	0015	1.431.260	863.527
Non-current assets held for sale and discontinued operations	0016	766.576	787.618
Other assets	0017	7.563.090	7.480.376
TOTAL ASSETS (from 0001 to 0017)	0018	417.323.096	400.108.316
LIABILITIES			
LIABILITIES, Liabilities under derivatives	0401	-	7.845
Deposits and other liabilities to banks, other financial organisations and central bank	0402	6.663.976	6.137.776
Deposits and other financial liabilities to clients	0403	330.825.522	317.577.748
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.655.603	1.551.883
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	3	1.751
Deferred tax liabilities	0411	628.609	1.647
Other liabilities	0412	10.554.170	7.729.550
TOTAL LIABILITIES (from 0401 to 0412)	0413	350.327.883	333.008.200
CAPITAL			
Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	4.659.727	8.357.092
Loss	0417	1.480.109	1.665.678
Reserves	0418	23.780.980	20.374.087
Unrealized losses	0419	-	-
Non-controlling participation	0420	65	65
TOTAL CAPITAL (0414-0415+0416-0417+0418-0419+0420) ≥ 0	0421	66.995.213	67.100.116
TOTAL CAPITAL SHORTFALL (0414-0415+0416-0417+0418-0419+0420) < 0	0422	-	-
TOTAL LIABILITIES (0413+0421-0422)	0423	417.323.096	400.108.316

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

INCOME STATEMENT - CONSOLIDATED

from 01.01.2018. to 30.06.2018.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
Interest income	1001	7.340.705	7.908.793
Interest expenses	1002	566.021	1.006.934
Net interest gains (1001-1002)	1003	6.774.684	6.901.859
Net interest losses (1002-1001)	1004	-	-
Income from fees and commissions	1005	3.638.124	3.407.989
Expenses on fees and commissions	1006	930.110	794.976
Net gains from fees and commissions (1005 - 1006)	1007	2.708.014	2.613.013
Net losses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from changes in fair value of financial instruments	1009	51.129	26.355
Net losses from changes in fair value of financial instruments	1010	-	-
Net gains from 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	95.130	60.054
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	482	-
Net exchange rate losses and losses on agreed currency clause	1018	-	10.552
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	24.658	265.192
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-
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	87.794	96.661
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	9.741.891	9.952.888
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	2.500.641	2.520.905
Depreciation costs	1029	324.630	327.779
Other income	1030	242.023	629.585
Other expenses	1031	3.372.719	3.246.437
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	3.785.924	4.487.352
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1033	-	-
Profit tax	1034	-	
Gains from deferred taxes	1035	-	1.235.813
Losses on deferred taxes	1036	-	
PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1037	3.785.924	5.723.165
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	3.785.924	5.723.165
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-
Profit belonging to a parent entity	1043	3.785.923	5.723.165
Losses belonging to a parent entity	1044	1	-
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		

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2018. to 30.06.2018.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	Amount 01.01. - 30.06. Previous year
1	2	3	4
PROFIT FOR THE PERIOD	2001	3.785.924	5.723.165
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	218.132	64.349
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	-
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	99.972	131.520
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	106.478	449.998
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	19.928	143.349
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	-
Tax losses relating to other comprehensive income for the period	2028	40.791	-
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2029	164.278	-
Total negative other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) < 0	2030	-	397.478
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	3.950.202	5.325.687
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	3.950.201	5.325.687
Total positive comprehensive income for the period attributable to non-controlling owners	2034	1	-
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		

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2018. to 30.06.2018.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 3002 to 3005)	3001	12.114.303	13.641.907
1. Interest	3002	8.043.931	9.441.194
2. Fees	3003	3.661.825	3.427.518
3.Other operating income	3004	406.076	769.791
4. Dividends and profit sharing	3005	2.471	3.404
II. Cash outflow from operating activities (from 3007 to 3011)	3006	6.661.001	8.026.511
5. Interest	3007	524.844	1.079.317
6. Fees	3008	931.144	795.984
7. Gross salaries, salary compensations and other personal expenses	3009	2.114.768	2.736.623
8. Taxes, contributions and other duties charged to income	3010	416.551	476.766
9. Other operating expenses	3011	2.673.694	2.937.821
III. Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)	3012	5.453.302	5.615.396
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	18.351.758	16.896.809
10. Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	1.099.429	8.788.673
11. Decrease in receivables under securities and other financial assets not intended for investment	3016	-	8.108.136
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	17.252.329	-
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	393.569	20.473.760
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	386.504	-
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	-	20.473.760
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	23.411.491	2.038.445
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	3.220	15.151
23. Dividends paid	3031	-	-
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	23.408.271	2.023.294
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	3034	28.731.742	29.944.125
1. Investment in investment securities	3035	28.731.742	29.822.029
2. Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3. Sale of intangible investments, property, plant and equipment	3037	-	3.214
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	41.953.433	37.343.167
6. Investment into investment securities	3041	41.697.485	37.194.515
7. Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8. Purchase of intangible investments, property, plant and equipment	3043	252.640	148.652
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	13.221.691	7.399.042
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054))	3048	43.934.916	44.898.057
1. Capital increase	3049	-	-
2. Subordinated liabilities	3050	-	-
3.Loans taken	3051	43.934.916	44.898.057
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	46.806.342	47.305.433
7. Purchase of own shares	3056	-	-
8. Subordinated liabilities	3057	-	-
9. Loans taken	3058	46.806.342	47.305.433
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	2.871.426	2.407.376
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	103.132.719	105.380.898
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	95.817.565	113.164.022
F. NET INCREASE IN CASH (3063-3064)	3065	7.315.154	-
G. NET DECREASE IN CASH (3064-3063)	3066	-	7.783.124
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	28.957.649	39.661.743
I. EXCHANGE RATE GAINS	3068	518.380	432.263
J. EXCHANGE RATE LOSSES	3069	492.834	520.664
K. CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	36.298.349	31.790.218

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

from 01.01.2018. to 30.06.2018.

in RSD thousand

DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	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	19.320.508	4129	6.507.144	4147	67.159	4165	545.985	4203	7.048.674	4241	66	4285	59.292.420	4291	-
Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
The adjusted opening balance as at 1 January of the previous year (No. 1+2-3+4-5)	4006	17.191.466	4038	-	4070	22.843.084	4102	19.320.508	4134	6.507.144	4152	67.159	4170	545.985	4208	7.048.674	4246	66	4286	59.292.420	4292	-
Total positive other comprehensive income for the period	x	x		x	x	x	x	x	4135	102.454	4153	4.056	x	x	x	x	4247	-	x	x	x	x
Total negative other comprehensive income for the period	x	x		x	x	x	x	x	4136	565.840	4154	46.091	x	x	x	x	4248	-	x	x	x	x
Profit for the current year	x	x		x	x	x	x	x	x	x	x	x	4171	8.267.995	x	x	4249	1	x	x	x	x
Loss for the current year	x	x		x	x	x	x	x	x	x	x	x	x	x	4209	-	4250	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x		x	x	x	x	x	x	x	x	x	4172	-	4210	-	4251	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x		x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
Distribution of profit – increase	4009	-	4041	-	4073	-	4105	1.686	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	4.861.264	x	x	x	x	4177	352.895	4215	5.212.472	4256	-	x	x	x	x
Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	16.808	4216	-	4257	-	x	x	x	x
Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	19.881	4217	-	4258	-	x	x	x	x
Other – decrease	4013	-	4045	-	4077	-	4109	21.407	x	x	x	x	4180	107.066	4218	170.524	4259	2	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0	4014	-	4046	-	4078	-	4110	-	x	x	x	x	4181	-	4219	-	4260	-	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) < 0	4015	-	4047	-	4079	-	4111	4.880.985	x	x	x	x	4182	456.888	4220	5.382.996	4261	2	x	x	x	x
Balance as at 31 December of the previous year (No. 6+7-8+9-10+11-12+20-21 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 6+8-7)	4016	17.191.466	4048	-	4080	22.843.084	4112	14.439.523	4137	6.043.758	4155	109.194	4183	8.357.092	4221	1.665.678	4262	65	4287	67.100.116	4293	-
Opening balance as at 1 January of the current year	4017	17.191.466	4049	-	4081	22.843.084	4113	14.439.523	4138	6.043.758	4156	109.194	4184	8.357.092	4222	1.665.678	4263	65	4288	67.100.116	4294	-
Effects of the first implementation of new IFRS - increase	4018	-	4050	-	4082	-	4114	-	4139	176.617	4157	-	4185	-	4223	46.350	4264	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4019	-	4051	-	4083	-	4115	101.392	4140	-	4158	3.538	4186	1.155.435	4224	-	4265	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
Adjusted opening balance as at 1 January of the current year (No. 23+24-25+26-27)	4022	17.191.466	4054	-	4086	22.843.084	4118	14.338.131	4143	6.220.375	4161	105.656	4189	7.201.657	4227	1.712.028	4268	65	4289	65.977.094	4295	-
Total positive other comprehensive income for the period	x	x	x	x		x	x	x	4144	180.401	4162	-	x	x	x	x	4269	-	x	x	x	x
Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145	-	4163	16.976	x	x	x	x	4270	-	x	x	x	x
Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	3.785.923	x	x	4271	1	x	x	x	x
Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x		x	4228	-	4272	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	-	4229	-	4273	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192	-	4230	-	4274	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
Distribution of profit – increase	4025	-	4057	-	4089	-	4121	3.166.096	x	x	x	x	4195	-	4233	-	4277	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	3.392.162	4234	226.065	4278	-	x	x	x	x
Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	2.535.916	4235	-	4279	-	x	x	x	x
Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	-	4236	-	4280	-	x	x	x	x
Other – decrease	4029	-	4061	-	4093	-	4125	1.391	x	x	x	x	4199	399.775	4237	5.854	4281	1	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0	4030	-	4062	-	4094	-	4126	3.164.705	x	x	x	x	4200	-	4238	-	4282	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) < 0	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	6.327.853	4239	231.919	4283	1	x	x	x	x
Balance as at 31 December of the current year (No. 28+29-30+31-32+33-34+42-43 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 28+30-29)	4032	17.191.466	4064	-	4096	22.843.084	4128	17.502.836	4146	6.400.776	4164	122.632	4202	4.659.727	4240	1.480.109	4284	65	4290	66.995.213	4296	-

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS AS OF

30.06.2018

Belgrade, August 2018

1. INCORPORATION AND OPERATION OF THE BANKING GROUP

Komercijalna banka a.d. Beograd (hereinafter: the Parent Bank) was founded on 1st December 1970 and transformed into a joint-stock company on 6th May 1992. The Parent Bank was registered at the Commercial Court in Belgrade on 10 July 1991 and was legally reregistered at the Business Registers Agency on 14th April 2006. Parent Bank was issued a banking licence from the National Bank of Yugoslavia on 3rd July 1991. Tax identification number of the Parent Bank is 100001931.

The following shareholders have the greatest stake in the voting shares of the Parent Bank:

Republic of Serbia	41.74%
EBRD, London	24.43%

The Parent bank has three subsidiaries with a share in their equity:

- 100% - Komercijalna banka a.d. Budva, Montenegro
- 100% - Company for managing an investment fund KomBank INVEST a.d. Beograd, Serbia,
- 99.998% - Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina.

Minority shareholder in Komercijalna banka a.d. Banja Luka with 0.002% is the Export Credit and Insurance Agency of the Republic of Serbia.

Consolidated financial statements and notes to consolidated financial statements present date of the Parent Bank, Komercijalna banka a.d. Budva, Komercijalna banka a.d. Banja Luka and the Company for managing an investment fund KomBank Invest a.d. Beograd (hereinafter: the Group).

Komercijalna banka a.d. Budva was founded in November 2002 as an affiliate of Komercijalna banka a.d. Beograd and was registered in the central register of the Corporate court in Podgorica on 6th March 2003. Registration number of Komercijalna banka a.d. Budva is 02373262. Komercijalna banka a.d. Budva changed its name and headquarters from Komercijalna banka a.d. Budva into Komercijalna banka a.d. Podgorica with a headquarters in Podgorica. This is specified in more detail in Item 10. Note.

Komercijalna banka a.d. Banja Luka was founded in September 2006 and on 15th September 2006 it was registered in the court register with the Decision of the Basic Court in Banja Luka. Registration number of Komercijalna banka a.d. Banja Luka is 11009778.

Company for managing an investment fund KomBank INVEST a.d. Beograd was founded in December 2007 and was registered on 5th February 2008. The Company's registration number is 20379758.

Activities of the Group include credit, deposit and guarantee operation and national and international payment transactions in accordance with the Law on Bank, as well as the tasks of managing investment funds. The Group is obliged to operate on the principles of liquidity, safety and profitability.

As of 30th June 2018 the Group consisted of: headquarters and the seat of the Parent Bank in Belgrade, 14 Svetog Save Street; headquarters of Komercijalna banka a.d. Budva in Budva – bb PC Podkošljun; headquarters of Komercijalna banka a.d. Banja Luka in Banja Luka – 6 Veselina Masleše; headquarters of the Company for managing an investment fund KomBank INVEST a.d. Beograd in Belgrade, 19 Kralja Petra Street; 6 business centers, 3 division for small and medium-sized enterprises, 18 branches and 2010 outlets on the territory of Serbia, Montenegro and Bosnia and Herzegovina (in 2017: 13 branches and 220 outlets).

As of 30th June 2018 the Group had 3,108 employees and as of 31. December 2017 2,106 employees.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Bases for financial statements preparation and presentation

Consolidated financial statement for the Group as of 30.06.2018 have been prepared in accordance with International Financial Reporting Standards (IFRS).

Enclosed consolidated financial statements were prepared in the format prescribed by the Rulebook on the contents, form and manner of disclosing annual, semiannual and quarterly statements of public companies (RS Official Gazette No. 14/2012, 5/2015 and 24/2017) on the basis of the Law on Capital Market (RS Official Gazette 31/2011, 112/2015 and 108/2016). The prescribed set of consolidated financial statements consists of: Balance-Sheet, Profit&Loss, Statement of Other Comprehensive Income, Cash-Flow Statement, Statement of Changes in Equity and Notes to Consolidated Financial Statements.

Consolidated financial statements are prepared in accordance with the principle of historical expense, except if stated differently in the accounting policies presented further in this document.

When preparing these financial statements the Parent Bank applied the accounting policies specified in Note 3.

When preparing and presenting periodic financial statements for the period January – June 2018, implementation of IFRS 9 change the regulation of NBS, according to which the banks were obliged to apply new forms of financial statements valid as of 01.01.2018.
Banks were obliged to adjust the date from the year column to the new structure without changing the financial data.

When preparing the semi-annual financial statements for 2018 the Group applied new Accounting policies in the part that concerns the financial instruments and enabling the allocation of credit loss to all accounting periods when benefits from funds are derived, which is an assumption for determining the accurate result.

During 2018, members of the Group have kept business records and have prepared stand-alone financial statements in accordance with the local legislation, other regulations that are based on International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as regulations of the competent central banks and regulatory bodies. Stand-alone annual financial statements for each group member have been audited by external auditors, on the basis of the applicable local legislation. Semi-annual financial statements are not subject to audit, in accordance with the applicable legislation of the Group members.

With the aim of preparing consolidated financial statements, stand-alone financial statements of subsidiaries have been adjusted to the presentation of financial statements on the basis of accounting regulations of the Republic of Serbia.

Consolidated financial statements of the Group are presented in thousands of dinars. The dinar is an official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are stated in dinars and rounded up in thousands.

Functional currencies EUR from the financial statements of Komercijalna banka a.d. Budva and BAM from the financial statements of Komercijalna banka a.d. Banja Luka have been converted into the reporting currency i.e. the functional currency of the Parent Bank – the dinar (RSD) on the basis of the official exchange rate of the national Bank of Serbia.

2.2. Going concern principle

Consolidated financial statements are prepared in accordance with the going concern principle, which means that the Group will continue to operate indefinitely in foreseeable future.

3. OVERVIEW OF KEY ACCOUNTING POLICIES

New accounting policies, specified below, are applied by Group members in the presented periodic financial statements.

(a) Consolidation

Parent Bank has control over the following legal entities, whose consolidation has been performed in these financial statements:

Legal entity	**Share in equity**
Komercijalna banka a.d. Budva, Montenegro	100%
Komercijalna bank a.d. Banja Luka, Bosnia and Herzegovina	99.998%
Company for managing an investment fund KomBank INVEST a.d. Beograd	100%

When preparing consolidated profit&loss account and consolidated cash flow statement, for recalculation of reclassified forms of subsidiaries we used an average exchange rate of the National Bank of Serbia for 2018 of 118,3028 to the EUR and 60,4873 to the BAM and other reclassified financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) we used the closing exchange rate on the balance-sheet date of 118,0676 to the EUR and 60,3670 to the BAM.

(b) Recalculation of FX amounts

Business changes in a foreign currency have been recalculated into dinars at the mid-market rate for the currency, valid on the final date of the business change.

Monetary items of assets and liabilities in a foreign currency, expressed in purchase value, have been converted into dinars, at the mid-market rate that vas valid on the balance-sheet date. Exchange rate gains/loss arising as a result of recalculation of FX items have been presented within profit&loss account. Non-monetary items of assets that are valued at purchase value in a foreign currency have been recalculated into dinars at the mid-market exchange rate valid on the date of business change.

Exchange rates of the most important currencies that were used when recalculating the balance-sheet items presented in a foreign currency have been set by the National Bank of Serbia and amounted to the following:

		In dinars
	30.06.2018.	**31.12.2017.**
USD	101.3369	99.1155
EUR	118.0676	118.4727
CHF	101.9230	101.2847
BAM	60.3670	60.5741

(v) Interest

Interest income and expenses, including penalty interest and other income and other expenses related to interest-bearing assets and liabilities have been calculated on accrual basis with the conditions from the contractual relation specified in the contract between the Bank and the client.

Interest income and expenses are recognized in the profit&loss by applying the effective interest rate method. Effective interest rate is the rate at which future cash flows are discounted during the expected life of a financial asset or liability (or, according to the need, for a shorter period) against its present value.

When calculating the effective interest rate, group members assess the future cash flows, taking into consideration all the agreed conditions that relate to a financial instrument, but also future losses that might arise.

Calculation of effective interest rate includes all paid or received fees and expenses that are an integral part of effective interest rate.

Transactional expenses are expenses that can be directly attributed to procurement or issue of a financial asset or a liability.

Recognition of interest income to impaired loans is done on net principle, by reducing gross accrued interest for the amount of impairment of interest receivables i.e. the amount that is unlikely to be collected. Recognition of interest income from impaired loans that belong to impairment level 3, on net principle, is performed by applying the concept of unwinding, in accordance with the document of the Group member that regulates that area. Once a financial asset becomes significantly impaired, from the moment of initial recognition, it is then classified into impairment level 3 and interest income is calculated by applying an alternative unwinding concept – IRC method.

(g) Fees and commissions

Income and expenses from fees and commissions, which form an integral part of effective interest rate of a financial asset or liability, are factored into the calculation of effective interest rate.

Other fee and commission income is recorded at the moment the service is provided. Fee and commission income include income from performed services of international and national payment transactions, issue and use of payment cards, issue of guarantees, letters of credit and other banking services.

(d) Net profit from termination of recognition of financial instruments that is valued at fair value

Net income from trading includes profit reduced by the loss arising from the trade in assets and liabilities, including also all realized and unrealized changes in fair value and exchange rate gains/loss.

(đ) Net profit from the change in fair value of financial instruments

Net income from other financial instruments at fair value through profit&loss relates to financial assets and liabilities presented at fair value through profit&loss and include all realized and unrealized changes in their fair value.

(e) Dividends

Income from dividends is recognized at the moment of receiving economic benefit from dividends. Dividends are shown as part of the item other income.

(ž) Operating and financial lease

All payments during the year regarding operating lease are recorded as expenses in the profit&loss equally and linearly during the life of the lease. Approved stimulations for lease are recognized within total lease expenses during the life of the lease.

Minimum lease installments for financial lease are distributed between financial expenses and reduced remainder of the liability for financial lease. Financial expenses are accrued to all periods during the life of the lease and result in uniform periodic interest rate for the remainder of the lease liability.

(z) Tax expenses

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the profit&loss, except to the extent they relate to items that are directly recognized within equity or within other comprehensive income.

(i) Current profit tax

Current tax is the expected liability or receivables as a result of profit tax for the accounting period that has been determined in accordance with the tax return for profit tax, with the use of applicable tax rates or tax rates that will apply on the reporting date, with the relevant corrections of tax liability from the previous year.

Current and deferred taxes are recognized as income and expenses and are included in net profit/(loss) for the period.

(ii) Deferred taxes

Deferred taxes are determined on the basis of temporary difference between book value of assets and liabilities in the financial statements and the value of assets and liabilities for tax purpose. When determining deferred taxes we are using tax rates that are expected to be applicable at the moment temporary differences arise, on the basis of legislation that applied on the reporting date.

During the business year the deferred tax assets and liabilities are recorded in separate balance-sheet items i.e. in the current business year they are recorded on gross principle.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and credits that can be carried over to the following fiscal periods up to the degree to which there will probably be taxable profit that tax loss is taken from and the loans can be reduced. Deferred tax assets are the subject of analysis at the end of each reporting period and are adjusted to the amount for which it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(iii) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, Group members pay different taxes and contributions, value added tax, capital gains tax and salary contributions. These expenses are included in “Other operating expenses”.

(i) Financial instruments

A financial instrument is any contract that results in a financial asset or a financial liability of a Group member with simultaneous occurrence of a financial liability or a financial asset of a third party.

Financial assets

A financial asset is any asset that is:
- cash,
- equity instrument of another legal entity,
- contractual right to receive cash or some other financial asset from another legal entity,
- contractual right for exchange of financial assets or financial liabilities with another legal entity, under the terms that are potentially favorable,
- contract that will be or may be settled by equity instruments and which is not derivative and fro which the Group members are or can be obliged to receive a variable number of equity instruments,
- contract that will be or can be settled by equity instruments and that is a derivative one and which will be or can be settled differently than by exchanging a fixed amount of cash or another financial asset for a fixed number of equity instruments.

Financial liabilities

Financial liability is every contractual liability of a group member:
- to deliver cash or another financial asset to another legal entity,
- to exchange financial instruments with another legal entity on terms that are potentially unfavorable.

Valuation rules for financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for classification of financial assets, except for equity instruments and derivatives that are based on the assessment of a business model for managing specific financial assets and contract characteristics of cash flows of financial instruments.

Financial assets

Group members assess the targets of business models for managing financial assets on the level of portfolio, given that this assessment best reflects the manner of governing business activities and the manner of reporting to the management.

Classification of financial assets is based on applying a relevant business model for managing financial assets and the fulfillment of the test of features of agreed cash flows.

A business model determines whether cash flows stem from collecting the agreed cash flows, sale of a financial asset or both. Business model for classification of financial assets is determined at the appropriate aggregate level.

Fulfillment of the test of features of agreed cash flows means that the cash flows consist only of payment of principal and interest on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets valued at amortized cost (AC)
- financial assets valued at fair value through profit&loss (FVTPL)
- financial assets valued at fair value through other comprehensive income, recorded in the profit&loss – "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income, not recorded in the profit&loss (FVOCI).

In accordance with the classification of assets from the previous paragraph, members of the Group classify all lending from their portfolio that relates to:

- **Loans** and receivables as underivative financial assets with fixed or determinable repayments that are not listed on an active market and which the Group member does not intend to sell shortly.
- **Securities that are valued at fair value through profit&loss** that are instruments acquired for the purpose of generating profit from price fluctuation and margin.
- **Securities that include debentures and equity securities (equity instruments):**
  - Debentures include bonds and transferrable securitized debt instruments, government bills, treasury bills, commercial bills, certificates of deposit, banking acceptances, subordinated bonds and other similar debentures that are traded in financial markets.
  - Equity shares include shares that are a stake in equity of a joint-stock company and convertible bonds that grant the holder, on conditions specified in the decision on issue, the right to exchange them for ordinary shares of the company. Shares (equity instruments) include all types of stakes in equity of legal entities for which there is an intention to keep them for an unspecified period and which can be sold due to the need for liquidity or due to a change in interest rates, exchange rates or market prices.
  - Investment into dependent legal entities that ensure control i.e. over 50% of controlling rights and investments into affiliate legal entities that allow for 20% to 50% of controlling rights and
- **Financial derivatives** that include forward and swap transactions.

(j) Cash and cash equivalents

Cash posted in the Report on Cash Flow includes cash in the drawing account in dinars, cash in hand in dinars and foreign currency, other monetary assets if they can be recognized as cash equivalents and precious metals, if they are directly cashable within a short period.

Cash equivalents include short-term, highly liquid investments that are quickly converted into known amounts of cash and that are subject to insignificant effect of the risk of change in value.

(к) Property and equipment

(i) Recognition and valuation

Property and equipment are tangible items that are held for use for business purpose in relation to which it future economic benefits are expected in the period longer than one accounting period.

Items in the property and equipment are recognized if the following conditions are met:

- probability that future economic benefit will be realized in the period longer than a year, and
- possibility of reliable measurement of the cost of obtaining.

Initial measurement of property and equipment is done at purchasing value of cost prices.

Purchasing value includes outlays that can be directly attributed to the procurement of assets. Subsequent investment into property and equipment, that improve the balance of assets above its initially estimated useful life can be capitalized so to increase the purchasing value of property and equipment. After initial recognition, equipment is valued at purchasing value reduced by the total accumulated depreciation and total accumulated losses due to decrease in value.

After the initial recognition, property is valued at revaluation amount that is their fair value on the revaluation date reduced by the subsequent accumulated depreciation and subsequent accumulated losses due to depreciation. Revaluation is performed regularly enough in order to ensure that the book value does not differ significantly from the value that we would arrive at by using fair value at the end of the reporting period.

When parts of property or equipment have different useful lives, they are recorded as separate items (key components) of the equipment.

Profit or loss from disposal of property and equipment are calculated as a difference between the value realized by their sale and their book value and are shown as part of other income or expenses.

(ii) Subsequent expenses

Cost of replacing an integral part of any fixed asset are recognized as part of carrying value of that fixed asset if it is probable that future economic benefit related to that integral part will arrive to the Group member and if the cost price of that part may be measured reliably. Carrying value of the replaced part is derecognized. The cost of regular servicing of property and equipment is recognized in the profit&loss when occurred.

(iii) Depreciation

Depreciation is recognized in the profit&loss in equal annual amounts during the estimated life of each item of property and equipment, given that this manner best reflects the expected consumption of the useful economic value contained in the asset.

Depreciation is calculated at rates that ensure compensation of the value of property and equipment during their useful life in accordance with the document that regulates this area.

Applied depreciation rates in the current and previous accounting period are:

Description	**Estimated useful life (in years)**	**%**
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70% - 50.00%
Investment in others' fixed assets	1 – 23.5	4.25% - 86.20%

The basis for depreciation consists of procurement or revaluation value of property and equipment, reduced by the estimated residual (remaining) value.

The method of depreciation, useful life and residual value are valued at the end of each reporting period and are corrected, when needed.

The cost of maintaining an asset is recognized in the profit&loss for the period in which it occurs.

(l) Intangible assets

Intangible asset is an asset that can be identified as a non-monetary one, without physical essence and which meets certain criteria from the IAS when it is:

- separable, it is possible to separate it and sell it, rent it or exchange it,
- it originated as a result of contractual or other legal rights, regardless of whether those rights are negotiable or separable from the Group members or other rights and obligations.

Intangible assets are initially valued at purchase value or cost price that consists of the purchasing value increased by direct expenses necessary for using an asset.

After the initial recognition, intangible assets are measured at purchasing value reduced buy accumulated depreciation and all accumulated losses resulting from impairment.

Internal outlays connected to an intangible item, including also the outlays arising as a result of research and development are recognized as an expense in the period they occurred, unless they form a part of purchasing value of another property item that meets the conditions for recognition. In that case, internal outlays increase the purchase value of property.
Depreciation is shown in profit&loss in equal annual amounts during the estimated life of each item of intangible investment, given that this best reflects the expected consumption of useful economic value contained in an asset. Estimated useful life of intangible assets is 3 to 10 years i.e. depreciation rates range between 10.00% and 33.34%.

Depreciation method, useful life and residual value are estimated at the end of each reporting period and are corrected when needed.

(lj) Investment property

Investment property is the property (land, building or a part of a building) that Group members hold with the aim of generating revenue from rent or increase in the value of capital or both, and not for sale in the regular course of business or for use for administrative purpose.

Initial valuation of investment property is done at purchase value i.e. the cost prices. Purchasing value of an investment property includes its sale price and all the outlays that can be directly attributed to the purchase of an asset.

For subsequent valuation of investment property, Group members use a purchase value model i.e. investment property is valued at purchase value reduced by accumulated depreciation and loss due to impairment.

Estimated life of investment property is 40 years and depreciation is calculated at the rate of 2.5%. depreciation is shown in the profit&loss in equal annual amounts during the estimated life of the property item, given that this best reflects the expected consumption of the useful economic value contained in the asset.

Investment property is converted into other types of property once its purpose changes, on the basis of an accounting document that proves this change.
Investment property is derecognized once it is disposed of or if no future economic benefit is expected of its use and disposal.
Difference between the carrying value and sale value of investment property that is being sold is recognized in the profit&loss in the period in which it occurred.

(м) Assets acquired through collection of receivables and assets intended for sale

Assets whose carrying value can be regained through a sale transaction and not through continued use are classified as fixed assets intended for sale.

Valuation of fixed assets available for sale is performed at a lower of the following two values: carrying value or fair value reduced by the cost of sale. In case an asset is not sold within a year after the initial recognition, the carrying value is adjusted to the fair value of fixed assets intended for sale, and adjusted if the assets are impaired in the sense of a decline in recoverable value. Effects of these adjustments are recognized as cost of the period.

For fixed assets intended for sale depreciation is not calculated.

Collection of receivables by foreclosing on movable and immovable property, in case when receivables are secured by mortgage, trust deed, pledge of movables or some other type of security, is performed on the basis of a court decision and/or sale contract arising from an out-of-court settlement or an auction.

Movable and immovable foreclosed assets are recognized in the accounting books as stocks of foreclosed assets with the intention to sell them within a year.

They are initially valued at a value that is lower than:

- gross value of receivables on the basis of which property is acquired or
- estimated value of property (not older than a year) reduced by the cost of sale.

Exceptionally, when the property is acquired as a result of a court decision in the amount that tis lower than the gross value of receivables, the property is valued at the value from the court decision. Also, the acquired property is valued within the shortest possible period, no later than at the end of the current year.

In case the contracted value of property that is acquired in an out-of-court procedure is higher than the value of total receivables, the difference is recognized in books as a liability at the moment of sale. Terms and the manner of settlement of a liability are specified in the sale contract.

After the initial recognition, the carrying value is adjusted to fair value of foreclosed assets, as well as an adjustment if the assets are impaired in terms of a decline in recoverable value. Effects of these adjustments are recognized as expenses of a period. Adjustment of fair value of foreclosed assets is performed in the same manner as for assets intended for sale.

For foreclosed assets and assets intended for sale, Group members apply the procedures of obligatory valuation of fair value before the process of sale.

(n) Leasing

Group members classify leasing (lease of property and equipment) as a financial lease in case when the contract specifies that all the risks and benefits arising from ownership of the leased item are transferred to the lessee. All other lease contracts are classified as operating lease contracts.

All payments during the year on the basis of the operational lease contract, where all the benefits and risks related to the ownership are withheld at the lessor, are recorded as expense in the profit&loss, equally, linearly during the life of the lease.

Lease contracts that relate to the lease of commercial space where branches are housed, relate mostly to operational lease.

Assets that are held on the basis of the financial lease contract are recognized as assets of the Group members at their fair value or, if that value is lower, at the current value of minimum lease installments, specified at the start of the lease contract. Appropriate liability to the lessor is included in the report on financial position, as an obligation from financial lease. Lease installments are divided into a part that relates to financial expense and a part that reduces the liability for financial lease in order to achieve constant interest rate on the remainder of the liability. Financial expense is shown directly as expense of the period.

(nj) Impairment of non-financial assets

Accounting value of non-financial assets, except for investment property and deferred tax assets is analyzed at the end of each reporting period in order to determine if there are indicators that point out to their impairment. In case it is determined that there are certain indicators of impairment, recoverable value of an asset is established. Loss from impairment is recognized if the book value of an asset exceeds its estimated recoverable value.

Recoverable value of an asset is determined as a value that is higher than the useful value of an asset and its fair value. For the purpose of establishing the useful value, the estimated future cash flows from the asset are discounted to their present value by applying a discount rate before tax that reflects the current market estimate of the time value of money as well as the risk specific for that asset.

Loss from impairment is recognized in case the book value of an asset is higher than its recoverable value. Loss from impairment is recognized in profit&loss.

Loss on the grounds of impairment is estimated at the end of each reporting period, in order to define if there was a decrease in losses or if they still exist. Loss on the grounds of impairment is cancelled in cases where changes occur with regards assumptions used to determine the reimbursable values of the funds. Loss on the grounds of impairment is cancelled only in the amount of the value that does not exceed the book value which would be determined, decreased by the funds depreciation, in case there is no recognition of losses on the grounds of impairment.

(o) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities represent the basic funding sources for the members of the Group.

Members of the group classify financing instruments as financial liabilities or as capital in accordance with the subject of the contracted terms for a concrete instrument.

(p) Provisions

Provision is a liability which is uncertain in terms of deadlines and amounts. Provision represents the best estimate of expenditures required to settle the current liability on the date of the balance.

Provisions are recognised when:

- There is a liability (legal or actual) which occurred as a result of a previous event,
- There is certainty of a disbursement of the funds which will follow the settlement of liabilities and
- The amount of the liability can be estimated with certainty.

Provisions are recognised in cases when it is expected that the member of the Group, as a result of the previous events, will have the legal and performed liability which can be reliably determined and whose collection is expected to cause the disbursement of resources, which represent the economic gains for the Group member. Provisions are determined by discounting the expected future cash outflows, by using the discount rate before tax which reflect the current market assessment of the time value of money, and where appropriate, liability-specific risks.

Members of the Group perform long-term provisions for:

- potential losses for undertaken potential losses,
- potential outflows for court disputes,
- payment of income of employees on the grounds of future liabilities and
- other potential liabilities which meet recognition terms, pursuant to the IAS/IFRS and internal acts of the members of the Group.

(r) Financial guarantees

Financial guarantees represent contracts as per which the members of the Group are obligated to perform payments to their beneficiaries for losses which are incurred due to failure to pay by the specific debtor on the maturity of the liability and as per the terms of the debt instrument.

Liabilities as per financial guarantees are initially recognised according to the fair value which is depreciated for the duration of the financial guarantee. Liabilities on the grounds of guarantees are subsequently measured in the amount larger than the depreciated value and the current value of the expected future payments (when payment done as per the contract is probable). Financial guarantees are recorded in the off-balance sheet items.

(s) Capital and reserves

The total Capital of the Group included the share capital, emission premiums, reserves from profits and other reserves, revaluation reserves, accumulated results and the results of the current period.

The capital of the Group includes the share capital and the emission premium of the Group. The share capital of the Group is formed from the initial share of the shareholders and subsequent emissions of new shares.

The Capital of the Group is formed from the invested funds of the founder of the Parent bank and the minor founder of the Komercijalna banka a.d. Banja Luka. The founder may not withdraw funds invested in the Capital of the Group.

(t) Earnings per share

The Parent Bank presents the basic and the decreased earnings per share for own common stocks. The basic earnings per share is calculated by dividing the profits or losses which belong to the holders of common stock of the Parent Bank with the weighed average of the number of common stock circulating during the period.

Decreased earnings per share is calculated by dividing the corrected profits or losses which belong to the holders of common stock for effects of preferential, replaceable shares with the weighed average of the number of common stock circulating during the period.

(ć) Segment information

The Business Operations segment is part of the Group - Member of the Group, which performs business operations independently which may generate income or costs, including income and costs generated from the transactions with other Members of the Group, whose business results are regularly controlled by the Management of the Parent Bank (as the main operating decision-maker) in order to make decisions on the allocation of resources per segments and value their results. For business operations segments of the Group separate financial statements are available.

4. RISK MANAGEMENT

The Banking Group has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits, including reporting in accordance with adopted strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate system of internal controls, adequate information system and adequate process of internal capital adequacy assessment.

Risk management process involves clear determining and documenting the risk profile and its adjusting to the Group’s preference for risk and risk tolerance, in accordance with the adopted strategies and policies.

Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

Starting from June 30, 2017 the Group applies the Basel III standard and has taken all necessary measures to timely align its business with the new regulations. Through a clearly defined process of introducing new and significantly modified products, services and processes related to processes and systems, the Group analysis their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially possible negative effects on the financial the result of the Group

Risk Management System

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

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

Risk Management Strategy defines:

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

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

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

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

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

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

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the Banking Group and clear division of personnel responsibilities in all stages of the process, including non-performing assets, i.e. risky placements management process ;
- Manner of assessing the Banking Group's risk profile and methodology for identifying, measuring and assessing risks;
- Manners of risk monitoring and control and establishing the system of limits, i.e. types of limits the Banking Group uses as well as their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of exceeding is possible within the legal framework;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the internal capital adequacy assessment process of the Banking Group;
- Principles of the system of internal controls functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

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

Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.
At the beginning of 2018, the Group members harmonized the internal acts (methodologies and procedures) in accordance with the amendments to the regulations of the National Bank of Serbia in the area 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 assess allowance for impairment in accordance with IFRS 9 as of January 1, 2018. In accordance with IFRS 9 the Group members have adopted a new Methodology for assessing the impairment of balance-sheet assets and probable loss from off-balance-sheet items with application date as of January 1, 2018.

Competencies

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

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Parent Bank and the Group are exposed to. Also, the Executive Committee analyzes the risk management system, and at least once quarterly reports to the Board on the level of risk exposure and risk management and decide, with the prior approval of the Board of Directors, of any increase in the Group's exposure to an entity related to the Group and shall notify the Board of Directors.
The Audit Committee is authorized and responsible for continued monitoring of application and adequate implementation of risk management policies and procedures, and for implementing the internal control system of the Parent Bank and the Group. The Audit Committee at least monthly reports to the Board of Directors on its activities, irregularities, and propose how they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.
The Asset and Liability Committee (ALCO) is authorized and responsible for monitoring the risk exposure resulting from the structure of the Group member’s receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks. Each Group member has its own Asset and Liability Committee.

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

The Risk Management Function of the parent bank defines and proposes for adoption the risk management strategy, policies, procedures and methodologies, identifies, measures, mitigates, monitors, controls and reports on the risks the Parent Bank and the Group are exposed to. It is also in charge of developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent Banking Group’s bodies.

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

The internal audit function is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The Compliance Function is obligated to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk Management Process

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

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

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

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

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

Risk management reports are regularly submitted to: the Board of Directors, Executive Board, Audit Committee, ALCO and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the risks. Group members report to the Parent Bank's risk management organizational unit on a monthly basis.

Risk Types

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

4.1. Credit Risk

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

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

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

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

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

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

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

The basic principles of credit risk management are as follows:

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

In their effort to manage credit risk all Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting their receivables.
All Group members perform quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

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

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

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

Basic credit risk alleviating techniques are:

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

The exposure limits per individual debtor are based on the assessment of the debtor's credit- worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Group members continuously control credit risk movements within a defined risk profile. In instances of exceeding the internal limits, the Group members submit explanations thereof and propose measures and action plans, while the Parent Bank notifies the Executive Board on the aforesaid excess of limits. Group members are obligated to inform the Parent Bank on any extraordinary circumstances in their operations that may occur due to the adverse local market trends, political and economic crises and the like.
Concentration risk includes: large exposure (exposure to a single entity or a group of related entities and the Group's related parties), group exposures with the same or similar risk factors such as industry sectors, types of products, geographic areas and the like and credit risk hedges.

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

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

Monitoring loan quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality. The Group members also continuously monitor and review adequacy of the process of loan rating and classification into risk groups according to the extent of recoverability.

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

As a hedge against counterparty default risk, the Group members undertake the following steps in respect to collection of due receivables: prolongation of repayment; loan rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; execution of agreements with interested third parties; and instigation of court proceedings and other measures.
If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Group initiates write-off of the remaining receivables or transfer from the balance sheet to off balance sheet.

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

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

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

Identification of problematic and restructured claims

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

Restructured non-problematic customers are classified into the category of potentially risky customers, while restructured problematic clients are classified into the category of clients with problematic claims.
The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of clients in the Standard category of clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementation of preventive actions against risky placements, i.e. mitigation and reduction of credit risk through the implementation of appropriate strategies and action plans. Potentially risky clients are monitored more frequently compared to standard clients and if further increase in credit risk is determined, clients are classified into the category of clients with problematic claims.
Problematic claims include all the claims that are late in settling obligations over 90 days per any materially significant obligation towards the Bank (parent company) or subsidiaries, claims for which based on assessed financial position is estmated that the borrower will not be able to meet its obligations in full without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), claims for which the impairment loss is determined on an individual basis, as well as contingent liabilities arising from guarantees issued (if there is likely to be activated), and irrevocable commitments (if activating them would lead to new receivables for which the Group considers it would not be collected in full without the realization of collateral). Claims are also considered to be problematic if these fulfill the following: the bank puts interest income and commission and fees income owed by the borrower on non-accrued status in the income statement; the bank recognises a specific adjustment for credit risk resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure; the material loss created by the sale of the obligation; restructuring of claims due to financial difficulties of the borrower; the bank has submitted a proposal for the obligor’s bankruptcy. Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

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

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

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

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

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

Assets quality deterioration Risk

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

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

A low level of risk implies doing business with customers with a high credit rating (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating category 3), and a high level of risk characterizes customers with negative operating results and poor credit rating (risk rating categories 4 and 5). Risk Category 4 is divided into three subcategories: 4 - performing clients (PE), 4D non-performing clients (NPE) with delay of up to 90 days and 4DD non-performing clients (NPE) with a delay of 91 to 180 days.

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

Risk of Change in Value of Assets

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

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

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

Allowance for impairment is based on estimated future cash flows from the borrower's business operations or collateral foreclosure if it is assessed that a loan can be realistically settled from such assets. The Group members assess allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

Each Group member assesses impairment of each individually significant loan with default status (risky placement, risk subcategories 4D, 4DD and risk category 5, according to internal rating system), that is loans that are classified into stage 3 in accordance with IFRS 9 standard. This assessment also includes consideration of the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Group member will be settled, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Group members determine based on the analysis of value structure of its portfolio by customer and product.

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

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

- When the financial position of the borrower points to significant problems in its business;
- When there are information on default, frequent delay in repayment or non-fulfillment of other contractual clauses;
- When a member of the Group, due to the financial difficulties of the borrower, significantly changes the repayment conditions in relation to initially contracted;
- The borrower can not settle its obligations in total without the realization of the collateral;
- Continuous account blockade over 60 days;
- When there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of the borrower) and similar.

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

When there is objective evidence, the amount of the impairment is estimated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby members of the Group recognize the existence of multiple collection scenarios when assessing the expected future cash flows. On this occasion, scenarios that can be considered are business scenarios (restructuring/agreements and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and the sale of receivables. The probability of a certain scenario of a member of the Group is guided by 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 and, accordingly, it assigns the appropriate weights to each scenario, which must be 100% in the sum of all scenarios.

Group-Level Assessment

Impairment is assessed on a group basis for all loans without identified objective evidence of impairment and that are not individually significant and for individually significant loans that do not have the status of default, for loans for which the calculation on an individual basis has not determined the amount of impairment, as well as on basis of fees and other receivables that have elements for reducing the present value.
Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (credit groups by types of clients and loans), based on the internal rating system, on a monthly basis. Methodology for assessing impairment has been significantly changed and instead of the realized loss approach in accordance with IAS 39, the principle of future expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability based on statistically proven interdependencies.
Group-level assessment of impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), unless there is a significant deterioration in credit risk in relation to the moment of initial recognition when the credit loss assessment is carried out on based on the probability of default of the instrument's life expectancy (stage 2 receivables).
Appreciating the specifics in doing business with clients, different migration matrixes are established forcorporate clients, micro business, for individuals by type of product, financial institutions andexposure to countries.
Impairment of loans decreases the value of loans and is recognized as an expense in the income statement.

Assessment of Provisions for Probable Losses on Off-Balance Sheet Items

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

Means of protection against credit risk (collaterals)

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

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

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

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

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

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

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

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from portfolio with movements in the market value in the Group members country market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the business real estates, the Group members conduct verification of value at least once a year, and for housing and other real estate at least once every three years.
The value of the collateral and the tendency of movement of it's value, the Group members monitor and update to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

4.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Group:

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

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

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

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

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

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

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

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

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

During 2018 the Group's liquidity ratio, narrow liquidity ratio and liquidity coverage ratio were both well above the prescribed limits.

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

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

The Group's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof. The Group regularly tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

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

Market Risk

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

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

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

4.3. Interest Risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

During 2018 the Group’s interest rate risk ratios were within internally prescribed limits.

Interest rate risk GAP report of monetary sub-balance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.

The Group’s management believes that appropriate matching of items per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

The Risk of Changes in Interest Rates

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

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

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

4.4. Currency Risk

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

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

The Group has established appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk.

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

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

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

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

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

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

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

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

4.5. Ten-Day VaR

The Group also conducts currency risk stress testing to estimate the potential effects of specific events and/or changes in more than one financial variable on the Group's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Group's portfolio during a specified period with a predefined confidence interval. The Bank calculates a one day and a ten day VaR parameter and stress VaR parameter, with a 99% confidence interval for foreign currency positions (currency VaR). In order to estimate the regulatory capital adequacy requirements regarding currency risk, the Group calculates the VaR by using the generalized autoregressive-conditional heteroskedastic (GARCH) model for which it did not request approval from the National Bank of Serbia.

4.6. Operational Risk

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

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

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

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Group has established a system for monitoring the activities undertaken by the Group's organizational parts in order to reduce arising operational risks. The Group assess the risk of entrusting third parties with activities related to the Group's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.
With the objective of smooth and continued operation of all significant systems and processes in the Group, and to limit losses that could be incurred in extraordinary circumstances, the Group adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Group adopted the Disaster Recovery Plan.

4.7. Investment Risks

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

4.8. Exposure Risk

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

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

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

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

4.9. Country Risk

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

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Group's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;

- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

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

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

4.10. Fair Value of Financial Assets and Liabilities

Fair values of loans and receivables due from customers are estimated using the discounted cash flows model in instances of loans and receivables at fixed interest rates. Discounts rates are based on the current market interest rates applied to instruments offered under similar terms to borrowers with similar credit ratings. In addition, liabilities due to customers with defined maturities and contracted at fixed interest rates are discounted taking into account the prevailing terms according to the deposit types, terms and maturities.

Loans that are no longer approved and cannot be approved (loans indexed to CHF) are discounted at the same interest rates. In addition, loans approved at fixed interest rates subsidized by the Government were discounted at the same rate since the Group would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the Group's members Business Policy.

Fair values of investment securities held to maturity are estimated using market prices or the discounted cash flows model based on current market interest rates applied to similar product instruments offered. Investment securities held to maturity have all matured resulting in the carrying values being equal to their fair values.

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

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

4.11. Capital Management

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

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

Basic goals of regulatory capital management are:

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

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

Capital adequacy ratio		**(000) RSD**
	30.06.2018.	**31.12.2017**
Tier 1 (T1) Capital	60,686,636	57,278,280
Common Equity Tier 1 (CET1) Capital	60,313,126	56,904,770
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(4,686,982)	(6,119,492)
Capital	**55,999,655**	**51,158,788**
Credit risk-weighted assets	179,267,751	168,012,566
Operational risk exposure	33,733,114	33,979,411
Foreign currency risk exposure	3,966,090	6,349,897
Capital adequacy ratio (min. 14.15%)	**25.81%**	**24.56%**
Share capital adequacy ratio (min. 12.15%)	**25.81%**	**24.56%**
Basic share capital adequacy ratio (min. 10.65%)	**25.64%**	**24.38%**

During the second quarter of 2018, all prescribed capital adequacy ratios at the Group level 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 Group ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and receivables, future sources of funding and their utilizations, dividend policy and changes in regulatory requirements.

During Q2 2018, the Group 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; and
- The Business Continuity Plan in case of occurrence of unforeseen events.

The Group continuously implements processes of internal capital adequacy assessment 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 capital adequacy assessment process meets the following criteria:

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

Stages of the internal capital adequacy assessment process include the following:

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

5. RECOGNITION AND INITIAL VALUATION OF FINANCIAL INSTRUMENTS

All financial instruments (placements, deposits, loans and subordinated liabilities) are recognised in business records, including all derived financial instruments i.e. derivatives, at the moment the Member of the Group becomes a contractual party on the grounds of the financial instrument/liability occurred. All other remaining financial instruments and liabilities are initially recognised at the date of the balance in accordance with the terms of the given financial instrument.

Initial valuation of the financial instruments and financial liabilities is done according to the fair value, with differences in the manner of recognising of transaction cost depending on the choice of the categories of subsequent valuation in the following manner:

- *According to fair value through the income statement*, it is done in the amount of fair value of the given equivalents on the day of the initial recognition, where their costs are recognised immediately in the income balance,
- *According to value through other comprehensive income* is also founded according to fair value adapted to all incremental transaction costs which may be directly attributed to acquiring or issuing of a financial instrument. The purchase value does not include transaction costs which may occur during the alienation,
- *According to depreciated value* it is done according to the purchase value increased by direct transaction costs.

Trade-allocated funds are initially recognised and subsequently measured according to the fair value in the balance sheet with transaction costs directly recognised in the income statement. All changes in the fair value are recognised in the income statement.

With initial recognition the Group may irrevocably allocate those financial funds which otherwise meet the criteria for valuation according to amortised costs (AC) or according to fair value according other comprehensive income (FVOCI) as recognised according to fair value through the income statement (FVTPL) if in that manner it eliminates or significantly decreases the accounting discrepancies which would otherwise occur. This classification is allowed only in the initial recognition and may not be subsequently revoked.

*Investments in subsidiaries and affiliate*s are included in the purchase value method which implies that these investments are expressed according to the procurement costs.
Financial derivatives are initially recognised according to purchase value and are subsequently calculated according to market value.

Deposits, debt securities emitted by the Bank, received loans and subordinated liabilities are initially valued according to fair value increased by direct transaction costs.

5.1. Subsequent valuation of the financial instruments

The accounting treatment of the subsequent valuation depends on the previously performed classification of financial instruments. The following overview shows the manner of valuating of individual elements of financial funds, depending on their classification and type of instrument.

Classification	Type of instrument	Valuation	Profits/Losses from the changes of the fair value	Interests and dividends	Impairment	Exchange differences
Financial funds and liabilities according to depreciated costs	Debt instruments	Depreciated cost	-	Income statement: use of EIR	Income statement, for financial funds	Income statement:
Fair values through the income statement	Debt and ownership instruments or derivatives	Fair value	Income statement:	Income statement:	-	Income statement:
Capital instruments according to fair value through other comprehensive income	Ownership instruments	Fair value	Other comprehensive income, without transfer to the IS	Income statement: Received dividends	-	Other total income
Debt financial funds according to fair value through other comprehensive income	Debt instruments	Fair value	Other total income, with the transfer to the BU in case of the termination of recognition	Income statement: use of EIR	Income statement	Income statement

5.2. Modification of financial funds

Change of the contracted cash flows due to the changes of contract terms which are not significant or modification of cash flows of financial funds, leading to the recognition of the income/expenditures from the modification of financial funds in the income statement by re-calculating gross book value of financial funds according to the current value of changed or modified cash flows according to contracts, discounted by the initial effective interest rate. According to the aforesaid, the member of the Group continues to use the existing fund which is modified.
The member of the Group calculates the profit/loss from modification as the first step which pre-dates the request for the change of expected credit loss of modified financial funds which are founded on changed contract terms.

5.3. Termination of recognition

The recognition of financial funds stops once the contractual entitlements over the cash flows related to the funds expire or when the member of the Group transfers the rights through a transaction pertaining to the ownership of the financial funds or if, through a transaction, the member of the Group does not either transfer nor keep all essential rights related to ownership but they do not maintain control over financial funds. All ownership over the transferred financial funds which meet the terms for the termination of recognition which the member of the Group created or kept is recognised as separate funds or liabilities in the balance sheet. During the termination of recognition of the financial funds, the difference between the book value (or the book value of the part the funds which was transferred) and the sum of the received compensation (including new funds which are procured, decreased by new undertaken liabilities) as well as collective profits or losses which were previously recognised in the income statement are recognised in the income statement for individual instruments.

6. SEGMENT REPORTING

The Parent Bank monitors and discloses business operations according to segments.

Information on the results of each reporting segment are shown bellow.

The Group has a total of four member which represent strategic orgsnisational parts:

Komercijalna banka a.d., Beograd, Serbia, Parent Bank	It includes loan, deposit and guarantee affairs as well as affairs related to performing payment transactions within the country and abroad, affairs pertaining to securities and other financial instruments.
Komercijalna banka a.d., Budva, Montenegro	It includes loan, deposit and guarantee affairs as well as affairs related to performing payment transactions within the country and abroad, affairs pertaining to securities and other financial instruments.
Komercijalna banka a.d.,Banja Luka, Bosnia and Herzegovina	It includes loan, deposit and guarantee affairs as well as affairs related to performing payment transactions within the country and abroad, affairs pertaining to securities and other financial instruments.
KomaBank INVEST investment fund management company a.d. Beograd, Serbia	It includes investment fund management affairs

The Parent Bank monitors and discloses business operations according to strategic segments - member of the Group within its consolidated financial statements. The Group performs the largest portion of business operations on the territory of the Republic of Serbia. Subsidiaries are not of material significance for the individual financial statement of the Parent Bank.

The balance sheet sum of the Parent Bank amounts to 90.39% of the total balance amount in the consolidated balance sheet (in 2017: 92.9%).

The balance amount of Komercijalna banka a.d., Budva is 3.43% of the total consolidated assets (in 2017: 3.05%), Komercijalna banka a.d., Banja Luka - 6.14% (in 2017: 4.04%) and KomBank INVEST - 0.04% (in 2017: 0.01%).

The result of the strategic segment is used to measure the success of business operations, since the management of the Parent Bank believes that this information is most relevant to value results of a specific strategic segment in comparison to other legal entities which operate in the said activities on the local market.

6.1. Reclassification of positions in individual financial statements of the member of the Group prior to consolidation

For the needs of consolidation, and prior to the consolidation procedure, according to needs, the reclassification is performed pertaining to positions in individual financial statements of the member of the Group which affects the correction of the balance amount and results in the income statement shown in statutory statements.
Corrected financial statements represent the initial balance position which are the subject of consolidation.

On 30 June 2018 the following reclassifications were done:

BALANCE SHEET

in 000 RSD

Account balance of the Parent Bank	380,551,714
The correction for the value adjustments which pertain to the decrease in the share of the subsidiary bank	2,869,029
The correction for the value adjustments which pertain to placements to subsidiary members	9,003
Corrected account balance of the Parent Bank	383,429,746

Statutory account balance of KB Banja Luka	25,807,870
Decrease for accrued revenues from receivables expressed according to the depreciation value by implementing EIR	(472)
Decrease for accrued expenses from receivables expressed according to the depreciation value by implementing EIR	(52.004)
Correction for value adjustments pertaining to the Parent Bank	306
Corrected account balance according to the Parent Bank model	25,755,700

INCOME STATEMENT

in 000 RSD

Result of the Parent Bank	3,620,749
Corrections for the effect of net value adjustments of placements which pertain to the subsidiary members (positive effect)	2.745
Corrections for the net value adjustments for losses according to off-balance sheet items (positive effect)	3.719
Corrected Result of the Parent Bank	3,627,213

Statutory Result of KB Banja Luka	76,341
Corrections for the effect of value adjustments of the placements which pertain to the Parent Bank (positive effect of the result)	306
Corrected result according to the Parent Bank model	76,647

6.2. Consolidated of the balance sheet and the income statement

During the consolidation the elimination of all relations in the balance sheet was performed in the amount of 6,689,631 thousand dinars (in 2017: 7,226,876 thousand dinars). Elimination of revenue from the income statement was performed in the amount of 16,030 thousand dinars (30 June 2017: 35,515 thousand dinars) and expenditures in the amount of 12,120 thousand dinars (30 June 2017: 24,987 thousand dinars).

Individual reclassified Balance Sheets on 30 June 2018:

	in thousands of dinars
KB Beograd	383,429,746
KB Budva	14,668,511
KB Banja Luka	25,755,700
KomBank Invest	158,770
Total for reclassified non-consolidated AB	424,012,727

Balance sheet on 30 June 2018

Total non-consolidated balance sheet	Sum of consolidation of the balance sheet	In thousands of dinars Consolidated balance sheet
424,012,727	**6,689,631**	**417,323,096**
cash/liabilities	2,613	
placements/liabilities	1,206,130	
shares/assets	5,480,888	

Individual reclassified Income statement on 30 June 2018:

	in thousand dinars
KB Beograd	3,627,213
KB Budva	83,913
KB Banja Luka	76,647
KomBank INVEST	2,061
Total for reclassified non-consolidated IS	3,789,834

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2018

Income statement on 30 June 2018

In thousands of dinars

Total non-consolidated income in the Income statement (before tax)	Sum of consolidation of the income statement		Consolidated income (before tax)
	income	expenditures	
3,789,834	**16,030**	**12,120**	**3,785,924**
Interest	2,026	2,026	
Fees	4,877	4,877	
Other income/expenditures	66	66	
exchange differences (reclassified in the capital)	9,061	5,151	

Balance sheet in 2017

In thousands of dinars

Total non-consolidated balance sheet	Sum of consolidation of the balance sheet	Consolidated balance sheet
407,335,192	**7,226,876**	**400,108,316**
cash/liabilities	1,192	
placements/liabilities	1,744,796	
shares/assets	5,480,888	

Income statement on 30 June 2017

In thousands of dinars

Total non-consolidated income in the Income statement (before tax)	Sum of consolidation of the income statement		Consolidated income (before tax)
	income	expenditures	
4,497,880	**35,515**	**24,987**	**4,487,352**
Interest	2,143	2,143	
Fees	4,532	4,532	
exchange differences (reclassified in the capital)	28,840	18,312	

The overview of the strategic segments from the consolidated balance sheet and consolidated income statement is shown bellow:

A. BALANCE SHEET - CONSOLIDATED on 30 June 2018

In thousands of dinars

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and funds in the Parent Bank	54,170,572	2,002,158	6,114,127	-	62,286,857
Debt securities	129,375,428	2,229,487	2,378,802	140,681	134,124,398
Loans and receivables from bank and other financial organisations	14,615,788	663,182	1,216,999	16,094	16,512,063
Loans and receivables from clients	162,578,939	8,178,698	15,199,542	-	185,957,179
Non-material property	424,268	10,431	29,620	-	464,319
Real estate, plant and equipment	5,552,148	298,026	61,004	25	5,911,203
Investment real estate	1,922,509	107,430	269,139	-	2,299,078
Current tax assets	-	-	7,067	6	7,073
Deferred tax assets	1,404,479	25,886	895	-	1,431,260
Fixed assets ended for sale and withheld funds	241,148	249,568	275,860	-	766,576
Other funds	6,948,932	530,450	81,753	1,955	7,563,090
Total assets	**377,234,211**	**14,295,316**	**25,634,808**	**158,761**	**417,323,096**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2018

A. BALANCE SHEET - CONSOLIDATED on 30 June 2018

In thousands of dinars

LIABILITIES	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities towards banks, other financial organisations and the Parent Bank	4,078,231	212,507	2,373,238	-	6,663,976
Deposits and other liabilities towards other clients	300,439,631	11,753,280	18,632,611	-	330,825,522
Provisions	1,489,584	144,762	15,604	5,653	1,655,603
Current tax liabilities	-	-	-	3	3
Deferred tax liabilities	598,524	27,548	2,537	-	628,609
Other liabilities	10,373,577	61,534	117,567	1,492	10,554,170
Total liabilities	**316,979,547**	**12,199,631**	**21,141,557**	**7,148**	**350,327,883**
Capital					
Share capital and emission premium	40,034,550	-	-	-	40,034,550
Accumulated result	3,752,148	(756,062)	175,183	11,350	3,179,618
Reserves	23,038,825	634,710	107,289	156	23,780,980
Share with non-controlling rights	-	-	65	-	65
Total assets	**66,825,523**	**(124,352)**	**282,537**	**11,506**	**66,995,213**
Total liabilities	**383,805,070**	**12,075,279**	**21,424,094**	**18,654**	**417,323,096**

A. BALANCE SHEET - CONSOLIDATED on 31 December 2017

In thousands of dinars

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and funds in the Parent Bank	49,840,887	2,366,019	3,869,842	-	56,076,748
Debt securities	117,288,767	2,300,043	1,778,837	154,933	121,522,580
Loans and receivables from bank and other financial organisations	29,047,033	778,990	407,532	-	30,233,555
Loans and receivables from clients	153,897,367	7,104,793	13,239,979	-	174,242,139
Non-material property	460,263	10,308	27,816	-	498,387
Real estate, plant and equipment	5,655,248	305.336	56.586	30	6,017,200
Investment real estate	1,988,608	112,256	279,700	-	2,380,564
Current tax assets	-	-	5,622	-	5,622
Deferred tax assets	857,096	6,431	-	-	863,527
Fixed assets ended for sale and withheld funds	241,148	310,676	235,794	-	787,618
Other funds	6,798,285	506,853	173,478	1,760	7,480,376
Total assets	**366,074,702**	**13,801,705**	**20,075,186**	**156,723**	**400,108,316**

A. BALANCE SHEET - CONSOLIDATED on 31 December 2017

In thousands of dinars

LIABILITIES	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Liabilities on the grounds of derivatives	7,845	-	-	-	7.845
Deposits and other liabilities towards banks, other financial organisations and the Parent Bank	3,283,494	196,445	2,657,837	-	6,137,776
Deposits and other liabilities towards other clients	292,471,640	11,960,678	13,145,430	-	317,577,748
Provisions	1,368,051	162,331	15,848	5,653	1,551,883
Current tax liabilities	-	47	1,672	32	1,751
Deferred tax liabilities	-	-	1,647	-	1,647
Other liabilities	7,543,442	83,554	101,032	1,522	7,729,550
Total liabilities	**304,674,472**	**12,403,055**	**15,923,466**	**7,207**	**333,008,200**
Capital					
Share capital and emission premium	40,034,550	-	-	-	40,034,550
Accumulated result	7,341,571	(772,527)	113,036	9,334	6,691,414
Reserves	19,645,901	586,110	141,964	112	20,374,087
Share	-	-	65	-	65
Total assets	**67,022,022**	**(186,417)**	**255,065**	**9,446**	**67,100,116**
Total liabilities	**371,696,494**	**12,216,638**	**16,178,531**	**16,653**	**400,108,316**

B. INCOME STATEMENT - CONSOLIDATED for 30 June 2018

In thousands of dinars

	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Budva	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d., Beograd Beograd	Total
Income from interest rates	6,685,158	273,553	381,699	295	7,340,705
Expenditures from interest rates	(457,304)	(39,594)	(69,123)	-	(566,021)
Net income from interest rates	**6,227,854**	**233,959**	**312,576**	**295**	**6,774,684**
Income from fees and commissions	3,428,836	84,446	114,130	10,712	3,638,124
Income from fees and commissions	(879,962)	(17,626)	32,356	(166)	(930,110)
Net income from fees and commissions	**2,548,874**	**66,820**	**81,774**	**10,546**	**2,708,014**
Net profit on the grounds of changes of fair value of the financial instrument	48,751	-	-	2,378	51,129
Net profit on the grounds of the termination of recognition of financial instruments valued per fair value	94,325	795	-	10	95,130
Net income from exchange differences and effects of the contracted currency clause	4,091	(3,915)	305	1	482
Net income on the grounds of impairment of financial funds which are not valued according to fair value through the income statement	(28,724)	19,741	33,641	-	24,658
Other operating income	77,152	3,116	7,526	-	87,794
Total net business income	**8,972,323**	**320,516**	**435,822**	**13,230**	**9,741,891**
Costs of wages and allowances and other personal expenditures	(2,202,516)	(132,646)	(158,079)	(7,400)	(2,500,641)
Depreciation costs	(284,092)	(17,151)	(23,382)	(5)	(324,630)
Other income	206,115	34,025	1,881	2	242,023
Other expenditures	(3,065,702)	(126,897)	(176,928)	(3,192)	(3,372,719)
Profit before taxes	**3,626,128**	**77,847**	**79,314**	**2,635**	**3,785,924**
Profit before taxes	**3,626,128**	**77,847**	**79,314**	**2,635**	**3,785,924**

In the expressed consolidated profits, the profit belongs to owners without contolling rights amount to 1 thousand RSD.

B. INCOME STATEMENT - CONSOLIDATED for 30 June 2017

In thousands of dinars

	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Budva	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d., Beograd Beograd	Total
Income from interest rates	7,274,735	281,028	352,943	87	7,908,793
Expenditures from interest rates	(887,840)	(39,007)	(80,087)	-	(1,006,934)
Net income from interest rates	**6,386,895**	**242,021**	**272,856**	**87**	**6,901,859**
Income from fees and commissions	3,189,947	87,543	119,101	11,398	3,407,989
Expenditures from fees and commissions	(729,555)	(22,089)	(43,187)	(145)	(794,976)
Net income from fees and commissions	**2,460,392**	**65,454**	**75,914**	**11,253**	**2,613,013**
Net profit on the grounds of changes of fair value of the financial instrument	23,868	-	-	2,487	26,355
Net profit on the grounds of the termination of recognition of financial instruments valued per fair value	59,500	543	-	11	60,054
Net expenditures from exchange differences and effects of the contracted currency clause	(28,857)	14,460	3,846	(1)	(10,552)
Net income on the grounds of decrease of impairment of financial funds which are not valued according to fair value through the income statement	227,327	33,446	4,419	-	265,192
Net profit on the grounds of the termination of recognition of investments in affiliates and joint ventures	306	-	-	-	306
Other operating income	87,239	3,472	5,950	-	96,661
Total net business income	**9,216,670**	**359,396**	**362,985**	**13,837**	**9,952,888**
Costs of wages and allowances and other personal expenditures	(2,220,023)	(134,864)	(159,024)	(6,994)	(2,520,905)
Depreciation costs	(291,237)	(16,371)	(20,157)	(14)	(327,779)
Other income	622,218	1,292	6,060	15	629,585
Ostali rashodi	(2,940,631)	(134,205)	(168,525)	(3,076)	(3,246,437)
Profit before taxes	**4,386,997**	**75,248**	**21,339**	**3,768**	**4,487,352**
Profits on the grounds of deferred taxes	1,235,813	-	-	-	1,235,813
Profit after taxes	**5,622,810**	**75,248**	**21,339**	**3,768**	**5,723,165**

7. CAPITAL

7.1 Capital includes:

In thousands of dinars

	30 June 2017	31 December 2017
Share capital	17,191,526	17,191,527
Emission premium	22,843,084	22,843,084
Profit reserves and other reserves	17,502,838	14,439,525
Revaluation reserves	6,278,144	5,934,564
Profit	4,659,730	8,357,094
Loss	(1,480,109)	(1,665,678)
Balance on 30 June	**66,995,213**	**67,100,116**

The Capital includes

Structure of the capital — **In thousands of dinars**

	30 June 2018			31 December 2017		
	Majority share	**Share without controlling rights**	**Total**	**Majority share**	**Share without controlling rights**	**Total**
Share capital	17,191,466	60	17,191,526	17,191,466	61	17,191,527
Emission premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**60**	**40,034,610**	**40,034,550**	**61**	**40,034,611**
Profit	**4,659,727**	**3**	**4,659,730**	**8,357,092**	**2**	**8,357,094**
Loss	**(1,480,109)**	**-**	**(1,480,109)**	**(1,665,678)**	**-**	**(1,665,678)**
Profit reserves and other reserves	17,502,836	2	17,502,838	14,439,523	2	14,439,525
Revaluation reserves	4,761,971	-	4,761,971	4,385,025	-	4,385,025
Revaluation reserves (debt balance)	(122,632)	-	(122,632)	(109,194)	-	(109,194)
Translation reserves (Note 7.2)	1,638,805	-	1,638,805	1,658,733	-	1,658,733
Reserves	**23,780,980**	**2**	**23,780,982**	**20,374,087**	**2**	**20,374,089**
Capital	**66,995,148**	**65**	**66,995,213**	**67,100,051**	**65**	**67,100,116**

The share capital of the Parent Bank is formed from the initial share of the shareholders and subsequent emissions of new shares. Shareholders have controlling rights over the Parent Bank, as well as rights of share in the distribution of profits. On 30 June 2018 the share capital of the Parent Bank is 17,191,466 thousand dinars and includes 17,191,466 shares with the nominal value of 1 thousand dinars per share.

As per the Decision of the Assembly of the Parent Bank no. 6380/3 of 26 April 2018 the negative effect of the first application of ISFR 9 was mitigated, reserves were increased on the grounds of profit and the increase of liabilities on the grounds of dividends to owners of common and preferential stock.

The coverage of the negative effect of the first application of ISFR 9 in subsidiaries was done in accordance with the legal regulation of the members.

The structure of the Parent Bank is provided in the following table:

	Number of shares	
Types of shares	**30 June 2018**	**31 December 2017**
Common stock	16,817,956	16,817,956
Priority stocks	373,510	373,510
Balance on 30 June	**17,191,466**	**17,191,466**

Structure of the share capital of the Parent Bank - common stock on 30 June 2018 is the following:

Name of the shareholder	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd - bankrupt	1.91
BDD M&V INVESTMENTS AD BEOGRAD – Custody account	1.67
Kompanija Dunav osiguranje	1.53
EAST CAPITAL (lux) BALKAN FUND	1.44
GLOBAL MARCO CAPITAL OPPORTUNITIES	0.78
STANKOM Co DOO BEOGRAD	0.70
SOCIETE GENER. BANKA SRBIJA - Custody account	0.48
UNICREDIT BANK Srbija AD - Custody account	0.47
FRONT. MARK. OPPORTUN. MASTER	0.41
Other	7.39
TOTAL	**100.00**

7.2. Cumulative foreign exchange differences according to the foreign currency adjustment for international operations

In thousands of dinars

	Cumulative foreign exchange differences on shares in subsidiaries	Cumulative foreign exchange achieved in inter-group transactions	Cumulative foreign exchange differences from the transfer of results from the Income statements from the average to the final rate	Total
Balance on 1 January the previous year	**1,827,754**	**44,300**	**55,634**	**1,927,688**
Increase	(290,273)	25,015	(3,697)	(268,955)
Balance on 31 December the previous year	**1,537,481**	**69,315**	**51,937**	**1,658,733**
Increase	(23,518)	3,910	(320)	(19.928)
Balance on 30 June 2018	**1,513,963**	**73,225**	**51,617**	**1,638,805**

8. POTENTIAL LIABILITIES AND OTHER OFF-BALANCE POSITIONS

In thousands of dinars

	30 June 2018	31 December 2017
Business operations in the name and for the account of third persons	4,288,519	4,278,704
Undertaken future liabilities	40,456,515	37,815,096
Derivatives intended for trade according to the contracted currency	-	592,364
Other off-balance positions	458,002,024	464,659,832
Total	**502,747,058**	**507,345,996**

The internal relationship with the Komercijalna banka a.d., Banja Luka was eliminated from the undertaken future liabilities on the grounds of non-drawn loans in the amount of 590,338 thousand dinars (5 million EUR) and the unused part of the approved limit for KomBank INVEST cards in the amount of 200 thousand dinars.

Internal relationships which were eliminated from other off-balance positions are the relationships of Komercijalna banka a.d. Banja Luka and KomBank INVEST with the Komercijalna banka a.d. Beograd.

8.1 Issued guarantees and letters of credit

Banks, Group members issue guarantees and letters of credit which guarantee settlement of liabilities by the clients to third persons. This contracts have a settled duration period which is most commonly a year.

The contracted values of potential liabilities are shown in the following table:

		In thousands of dinars
	30 June 2018	31 December 2017
Payable guarantees	3,917,376	4,021,866
Performance bonds	3,537,701	4,802,696
Letters of credit	229,245	104,330
Balance on 30 June	**7,684,322**	**8,928,892**

The aforesaid amounts represent the maximum amount of losses which the Banks, members of the Group would experience on the date of financial statements if none of the clients are able to settle the contracted liabilities.

8.2 Structure of the undertaken liabilities is as following

		In thousands of dinars
	30 June 2018	31 December 2017
Unused part of the approved overdraft for payment and credit cards and overdrafts according to current accounts	10,460,392	10,191,351
Undertaken irrevocable liabilities for non-drawn loans	20,846,079	17,539,762
Other irrevocable liabilities	1,432,498	1,155,091
Other undertaken liabilities according to the contracted value of securities	33,224	-
Balance on 30 June	**32,772,193**	**28,886,204**

9. AFFILIATES

The largest share in the controlling shares of the parent Bank belong to the Republic of Serbia which owns 41.74% common stock of the Bank and EBRD, London which is the owner of the 24.43% common stocks of the parent Bank. The Parent Bank has three affiliate legal entities: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka i KomBank Invest a.d., Beograd.

Legal and natural persons are considered affiliates if one person is in control, joint control or significant impact on making financial and business decisions of the other legal person. Affiliates are persons which are under joint control of the same parent legal person. The Parent Bank discloses the relationship with affiliates and the Group according to the methodology of the National Bank of Serbia.

As part of the regular business operations of the Group a certain number of banking transactions with affiliates are performed. The include loans, deposits, investments in securities and derivative instruments, transactions of payment operations and other banking affairs.

Consolidated transactions with subsidiaries are shown in Note 6.

10. EVENTS AFTER THE DATE OF THE BALANCE SHEET

Events after the date of the balance sheet of the Parent Bank:

The Assembly of Komercijalna banke AD Beograd at a session held on 31 July 2018 has adopted a decision on the appointment of the authorised auditing company Ernst & Young d.o.o. Beograd for the external auditor of the Bank for 2018.

On 13 June 2018, as per the contract on the assignment of receivables, the Bank received compensation for the assigned receivables in the amount of EUR 12,900,000 i.e. 1,522,765 thousand dinars. On the grounds of transactions a positive effect on the income statement in the amount of 526,547 thousand dinars was achieved.

Events after the date of the balance sheet of the Komercijalna banka a.d., Budva:

Komercijalna banka a.d. Budva changed the business headquarters and their name by being entered in the registry of the Commercial Court in Podgorica on 4 July 2018. The new name of the Bank is Komercijalna banka a.d. Podgorica with headquarters in Podgorica at the address: Cetinjska 11 – Poslovni centar „The Capital Plaza“, Kula PC 1. In addition, on 3 July 2018, the Bank received consent for new members of the Board of Directors from the Central Bank of Montenegro who held a first session on 25t July 2018.

Events after the date of the balance sheet of the Komercijalna banka a.d., Banja Luka:

There were no events after the balance sheet date, until the date of the issuance of the financial statements, which would require possible corrections or additional disclosures by the Komercijalna banka a.d., Banja Luka.

Events after the date of the balance sheet of the KomBank INVEST a.d., Beograd, investment funds management company:

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

There were no events after the balance sheet date which would require disclosure in the Notes to consolidated financial statements for 30 June 2018.

11. EXCHAGE RATE

Exchange rates determined at the inter-bank meeting of the currency market implemented for the recalculation of the balance sheet position in dinars on 30 June 2018 and 2017 for specific major currencies are:

	The official rate of the National Bank of Serbia (NBS)		The average rate of the National Bank of Serbia (NBS)	
	30/06/2018	31/12/2017	30/06/2018	30/06/2017
USD	101.3369	99.1155	-	-
EUR	118.0676	118.4727	118.3028	123.4005
CHF	101.9230	101.2847	-	-
BAM	60.3670	60.5741	60.4873	63.0937

In Belgrade,

On 14 August 2018

Persons responsible for the preparation of the financial statement

KOMERCIJALNA BANKA AD BEOGRAD

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Business Registers Agency: 10156/2005
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Pursuant to Article 52 of the Law on Capital Market (RS Official Gazette No. 31/2011,112/15 i 108/16) it is stated the following:

STATEMENT

We hereby state that, according to our best knowledge, the semi-annual consolidated financial statements as at 30.06.2018 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, inclusive of its companies that are included in the consolidated financial statements.

Persons responsible for the preparation of consolidated financial statements

Sanja Đeković	Miroslav Perić
Executive Director for Finance and Accounting	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
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KOMERCIJALNA BANKA AD BEOGRAD

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Business Registers Agency: 10156/2005
Account number: 908-20501-70
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STATEMENT

Consolidated 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 consolidated financial statements

Sanja Đeković	Miroslav Perić
Đeković	
Executive Director for Finance and Accounting	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
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