KOMERCIJALNA BANKA

Meni najbliža

REPORT

OF THE BANK FOR THE FIRST QUARTER 2017

BELGRADE, MAY 2017

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

1. OVERVIEW OF KEY PERFORMANCE INDICATORS FOR THE PERIOD 01.01.2017 TO 31.03.2017

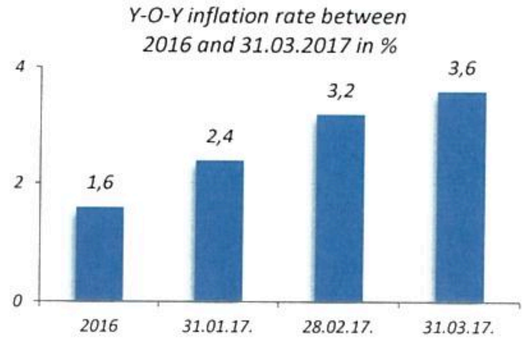
1.1. Key performance indicators

ITEM	31.03.17.	28.02.17.	31.01.17.	2016.	2015.
BALANCE SHEET (000 RSD)					
Balance sheet assets	381.990.129	382.315.094	404.311.581	400.017.469	393.439.874
Off-balance-sheet	497.926.215	497.464.143	526.478.140	520.370.274	580.407.210
RETAIL					
Loans[1]	77.347.207	75.747.241	75.633.372	75.522.465	70.784.957
Deposits[2]	234.156.293	233.991.909	232.981.406	231.312.395	218.836.847
CORPORATE					
Loans	68.216.087	69.666.600	71.224.230	74.083.897	89.204.275
Deposits	57.000.776	56.092.396	80.647.111	78.300.568	55.503.896
ITEM	31.03.17.	28.02.17.	31.01.17.	2016.	2015.
PROFIT&LOSS (000 RSD)					
Profit/loss before tax	2.482.832	1.970.506	786.400	-8.377.636	-6.175.885
Net interest income	3.255.754	2.147.933	1.130.291	13.462.734	13.768.082
Net fee income	1.165.502	732.980	367.890	4.817.314	4.899.947
PROFITABILITY INDICATORS					
ROA	2,55%	3,01%	2,35%	-2,05%	-1,56%
ROE – on share capital	24,81%	29,53%	23,57%	-20,93%	-15,43%
ROE – on total capital	17,40%	20,85%	16,92%	-13,86%	-8,99%
Net interest margin on total assets	3,34%	3,28%	3,37%	3,30%	3,48%
Cost / income ratio	59,92%	60,48%	57,45%	60,65%	57,85%
Operating expenses (000 RSD)[3]	2.649.309	1.742.493	860.631	11.086.858	10.799.510
Net expenses from indirect write-off of loans and provisions (000 RSD)	72.775	195.258	88.358	-14.907.539	-13.008.527
FX risk ratio	5,52%	5,88%	4,12%	2,96%	10,60%
Liquidity ratio	2,98	3,15	3,24	2,86	2,73
Operating cash flow	3.345.570	2.615.532	606.933	7.987.047	7.819.613
ITEM	31.03.17.	28.02.17.	31.01.17.	2016.	2015.
LOANS/DEPOSITS RATIO					
Gross loans/deposits	61,33%	61,55%	57,73%	58,74%	67,43%
Net loans/deposits	53,20%	53,11%	49,78%	50,70%	57,19%
CAPITAL (000 RSD)	57.830.823	57.263.080	56.144.812	55.424.302	62.838.046
Capital adequacy	26,69%	26,23%	26,43%	26,97%	22,75%
Number of employees	2.823	2.852	2.854	2.858	2.877
Assets per employee (000 EUR)	1.092	1.082	1.143	1.134	1.125
Assets per employee (000 RSD)	135.314	134.052	141.665	139.964	136.779

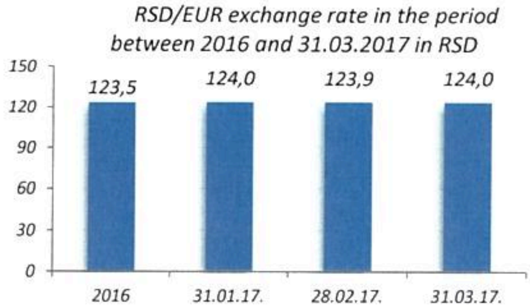
1 Item loans (retail and corporate) does not include other loans and receivables
2 Item deposits does not include other liabilities and funds received from credit lines
3 Operating expenses also show the cost of salaries, tangible and intangible operating expenses

2. MACROECONOMIC OPERATING ENVIRONMENT IN THE PERIOD BETWEEN 01.01.2017 AND 31.03.2017

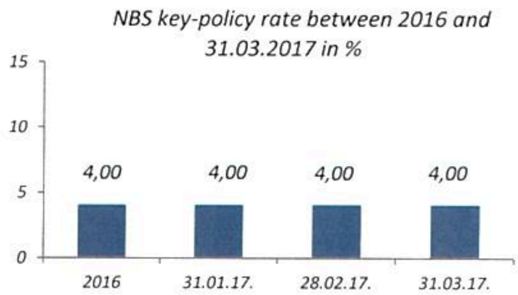
The trend in inflation, below the lower limit of the targeted inflation rate until 2018 (3,0±1,5%) continued also in 2017, and amounts to 3.6% at the end of the first quarter. Growth in inflation, compared to the same period last year is the result of temporary causes, such as the increase in the price of cigarettes, energy products, mobile telephone service and especially fruit and vegetables due to adverse weather conditions.



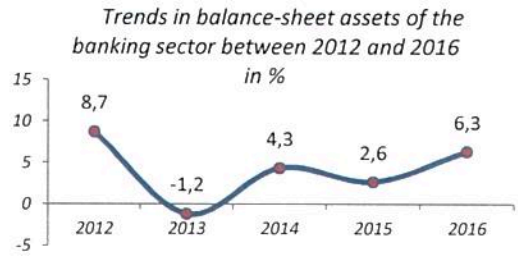
In the first quarter of the current year, the dinar depreciated negligibly agaisnt the euro. The euro exchange rate stabilsed at the value of approx. 124 dinars to the euro. During the first quarter of the current year there was a decrease in the dinar exchange rate against the end of 2016 of 0.4%.



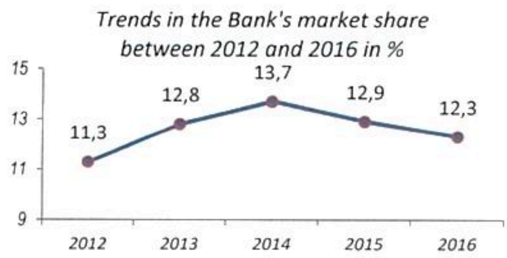
NBS kept its key-policy rate at the level of 4.0% from the end of the first quarter 2017. Such a decision was passed bearing in mind the effects of the monetary policy relaxation so far and the expectation that the inflation will range within the targeted limits. Year-on-year inflation has been within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



Banking sector in the Republic of Serbia generated an increase in balance-sheet assets in 2016 compared to the previous year of 6.3%, whcih is an increase of 3.7pp. At the end of 2016 NBS granted its preliminary approval for the establishment of a new bank in the market – the Bank of China.



Continuation of the careful management of the loan portfolio and an increase in coverage of NPL by impairments to over 75% resulted in the bank decreasing negligibly its share in the total balance-sheet assets of the banking sector in 2016 to 12.3% (0.6pp).



3. KEY PERFORMANCE INDICATORS BETWEEN 01.01.2017 AND 31.03.2017

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Deposits	57.000.776	56.092.396	80.647.111	78.300.568	55.503.896

As of 31.03.2017 the balance-sheet assets of the Bank amounted to RSD 381,990.1 million and were reduced by RSD 18,027.3 million or 4.5% compared to the end of 2016.

Off-balance-sheet assets went down by 4.3% in the first quarter 2017 and at the end of March this year amounts to RSD 497.926,2 million.

In the first three months of 2017 the Bank reduced its indebtedness through credit lines in the amount of RSD 1.082,3 million, which is somewhat below the balance at the end of 2016 (-8,3%). At the same time the Bank recorded a decrease in deposits (without other liabilities and credit lines) in the amount of RSD 19.122,3 million or 6.1%. In the structure of this change, the retail deposits increased by RSD 2.843,9 million, while the deposits from legal entities went down in the amount of RSD 21.299,8 million. These changes contain also the effect of dinar depreciation against the euro (0.4%) and Swiss franc (1.0%).

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PROFITABILITY RATIOS					
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ROE – on share capital	24,81%	29,53%	23,57%	-20,93%	-15,43%
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Operating expenses (000 RSD)[4]	2.649.309	1.742.493	860.631	11.086.858	10.799.510
Net expenses for indirect loan write-off and provisions (000 RSD)	72.775	195.258	88.358	-14.907.539	-13.008.527
FX risk ratio	5,52%	5,88%	4,12%	2,96%	10,60%
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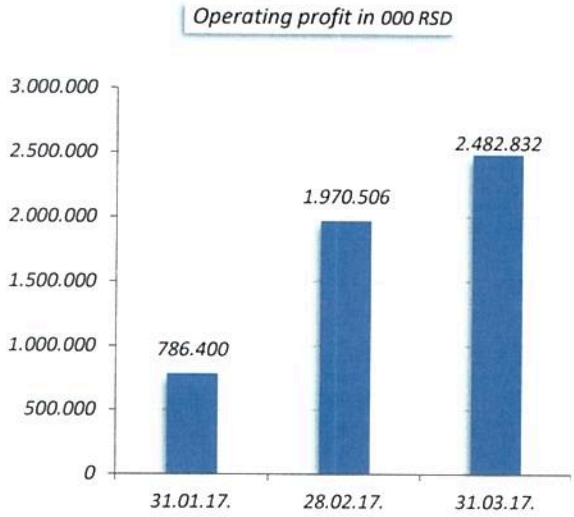
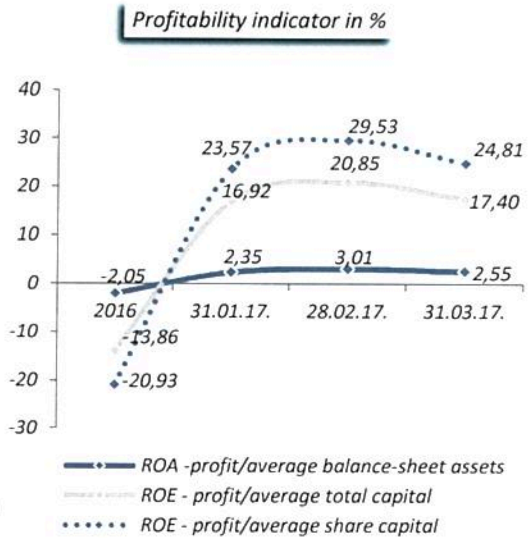
Operating cash flow	3.345.570	2.615.532	606.933	7.987.047	7.819.613

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





The clean-up of the loan portfolio resulted in a high level of loan impairments but also in the growth of NPL coverage by impairments in the previous year (over 75% at the end of 2016). In the first three months this year, compared to the same period the previous year, the Bank realized a considerably higher amount of profit. Realized profit of the Bank in the period between 01.01 and 31.03.2017 was RSD 2,482.8 million which, compared to the same period last year is an increase of RSD 1.079,8 million (77,0%). Such a change in profit secured in the first three months of 2017 a return on total capital of 17.4% and return on share capital of 24,81%.

Trends in profit in the first quarter 2017, compared to the same period the previous year, was mostly affected by the end of the court dispute in favour of the Bank, in the amount of RSD 566,4 million, net income from reduction in the impairments of financial assets – in the amount of RSD 72.8 million, unlike the previous year, when an expense of RSD 492.1 million was generated. Of the positive effects it is important to emphasise also the increase in net profit from financial assets available for sale in the amount of RSD 86.7 million. A profit of RSD 43.4 million was realized in the reporting period, while in the same period last year there was a loss of RSD 43.3 million.

As a result of withdrawal of deposits and a decrease in the volume of operations, in the first three months 2017 the assets per employee in the Bank went down from RSD 140.0 million (31.12.2016), to RSD 135,5 million as of 31.03.2017.

At the end of the first quarter of the current year the cost income ratio (CIR) was 59.92%, while it was 60.65% at the end of 2016.

4. BALANCE SHEET AS OF 31.03.2017

4.1. The Bank's assets as of 31.03.2017

(IN 000 RSD)

No.	ITEM	31.03.2017.	31.12.2016.	INDEX
1	2	3	4	5=3/4
1	Cash and funds at the central bank	53.698.437	55.153.209	97,36
2	Pledged financial assets	-	-	-
3	Financial assets at fair value through balance-sheet intended for trade	1.355.419	242.920	557,97
4	Financial assets initially recognized at fair value through profit&loss	-	-	-
5	Financial assets available for sale	132.458.424	136.123.853	97,31
6	Financial assets held to maturity	-	-	-
7	Loans and receivables from banks and other financial organisations	31.426.801	40.601.413	77,40
8	Loans and receivables from customers	146.039.562	150.411.409	97,09
9	Changes in fair value of items that are subject to risk hedging	-	-	-
10	Receivables from financial derivatives intended for risk hedging	-	-	-
11	Investment in affiliates and joint ventures	-	-	-
12	Investment in subsidiaries	2.611.859	2.611.859	100,00
13	Intangible assets	327.170	362.507	90,25
14	Property, plant and equipment	5.793.766	5.856.458	98,93
15	Investment property	2.094.847	2.217.816	94,46
16	Current tax assets	-	-	-
17	Deferred tax assets	542.856	0	-
18	Fixed assets intended for sale and assets from discontinued operation	183.170	183.170	100,00
19	Other assets	5.457.818	6.252.855	87,29
	TOTAL ASSETS (from 1. to 19 .)	**381.990.129**	**400.017.469**	**95,49**

Balance-sheet assets of the Bank at the end of the first quarter of 2017 decreased by RSD 18,027.3 million or 4.5%.
The structure of these balance-sheet items is dominated by an increase in financial assets at fair value intended for trade, which increased in the first quarter 2017 by RSD 1,112.5 million or 458.0%. This is the result of reinvesting a portion of due dinar securities available for sale – RS T-bills (RSD 3,089.8 million) in FX securities intended for trade – T-bills and bonds of the Republic of Serbia.

Loans and receivables from banks and other financial organisations (according to the new balance-sheet scheme) decreased by RSD 9,174.6 million or 2.9%, while loans and receivables from customers decreased by RSD 4,371.8 thousand. As of 31.03.2017 the total lending and receivables from customers and banks were RSD 177,466.4 million, which makes up 46.5% of the total balance-sheet assets.
The total balance of financial assets available for sale decreased by RSD 3,665.4 million (-2.7%) compared to the end of 2016.

During the first three months of the current year the item cash and assets with the central bank recorded a decrease of RSD 1,454.8 million or 2.6%. The decrease in this item was mostly caused by a decrease in the balance of the drawing account of RSD 1,155.0 million and cash in hand in dinars of RSD 528.1 million. Other items (cash in hand in foreign currency, FX mandatory reserve and other FX cash) increased by RSD 228.4 million.

4.2. The Bank's liabilities as of 31.03.2017

(IN 000 RSD)

No.	ITEM	31.03.2017.	31.12.2016.	INDEX
1	2	3	4	5=3/4
1	Financial liabilities at fair value through P&L intended for trade	-	-	-
2	Financial liabilities initially recognised at fair value through P&L	-	-	-
3	Liabilities from financial derivatives intended for risk hedging	-	-	-
4	Deposits and other liabilities to banks, other financial organisations and central bank	6.303.699	7.834.962	80,46
5	Deposits and other liabilities to other customers	303.883.929	322.621.360	94,19
6	Changes in fair value of items that are subject to risk hedging	-	-	-
7	Issued treasury securities and other borrowed assets	-	-	-
8	Subordinated debt	6.275.560	6.178.390	101,57
9	Provisions	1.795.134	1.787.294	100,44
10	Liabilities for assets intended for sale and assets from discontinued operations	-	-	-
11	Current tax liabilities	-	-	-
12	Deferred tax liabilities	566.448	23.592	2.401,02
13	Other liabilities	5.334.536	6.147.569	86,77
	TOTAL LIABILITIES (from P 1 to P 13)	**324.159.306**	**344.593.167**	**94,07**
	CAPITAL			
15	Share capital	40.034.550	40.034.550	100,00
16	Treasury shares	-	-	-
17	Profit	2.832.529	349.698	809,99
18	Loss	8.063.183	8.063.183	-
19	Reserves	23.026.927	23.103.237	99,67
20	Unrealized losses	-	-	-
21	Non-controlling stakes	-	-	-
22	**TOTAL CAPITAL (from 15 to 21)**	**57.830.823**	**55.424.302**	**104,34**
	TOTAL LIABILITIES (from P 1 to P 21)	**381.990.129**	**400.017.469**	**95,49**

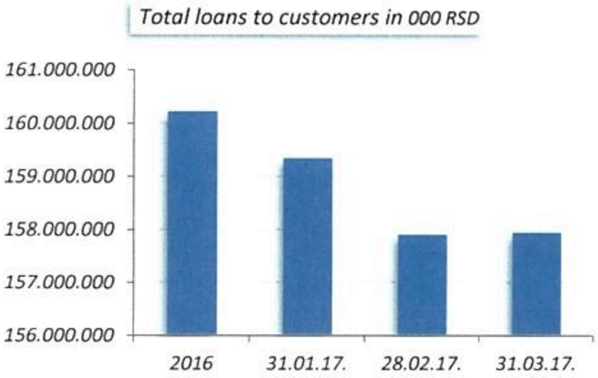
The Bank's total liabilities at the end of the first quarter 2017 were RSD 324,159.3 million and account for 84.9% of total liabilities (31.12.2016: 86.%). At the same time, total capital, with RSD 57,830.8 million accounts for 15.1% of total liabilities (31.12.2016: 13.9%). Total liabilities went down compared to the end of the previous year by RSD 20,433.9 million or 5.9%, while total capital increased by RSD 2,406.5 million or 4.3%.

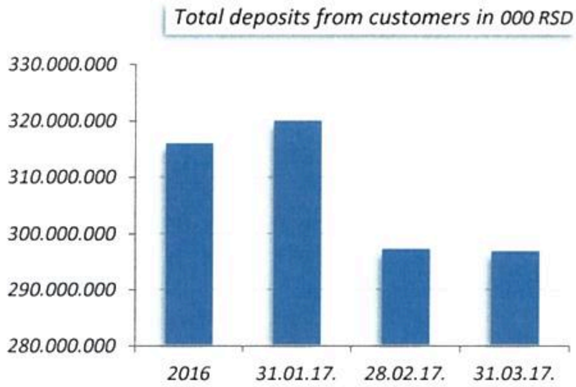
The item deposits and liabilities to customers decreased in the reporting period by RSD 18,737.4 million or 5.8%, while deposits and liabilities to banks decreased compared to the end of the previous year by RSD 1,531.3 million or 19.5%. The item other liabilities decreased by RSD 813.0 million or 13.2%. Subordinated liabilities in the amount of RSD 50.0 million were drawn down at the end of 2011 with the aim of increasing the Bank's regulatory capital.

Foreign credit lines decreased in the first three months of 2017 in the net equivalent of RSD 1,082.3 million, so the balance of dinar equivalent of these liabilities amounted to RSD 11,901.8 million as of 31.03.2017.

In the structure of balance-sheet liabilities total deposits and other liabilities of banks and customers amount to RSD 310,187.6 million, which accounts for 81.2% of total balance-sheet liabilities, with a decrease against the end of the previous year of RSD 20,268.7 million or 6.1%.

4.3. Loans to customers and deposits from customers as of 31.03.2017





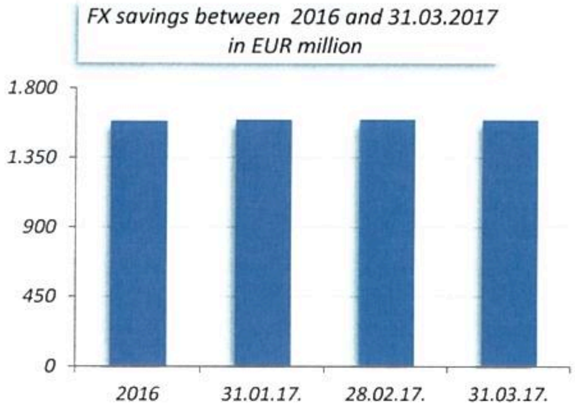
The most important category of balance-sheet assets, loans to customers (excluding other lending and receivables) recorded a decrease of RSD 2,282.2 million. The level of approved loans to customers, at the end of the first quarter 2017 was under a significant effect of retail lending, which reached RSD 77,347.2 million at the end of March 2017, which is an increase of 2.4%, while corporate lending decreased by RSD 5,867.8 million or 7.9%. Total loans to banks, other financial organisations and customers, as of 31.03.2017, amount to RSD 157,953.7 million and decreased compared to the end of the previous year by 1.4%.

(IN 000 RSD)

No.	ITEM	BALANCE AS OF 31.03.2017	BALANCE AS OF 31.12.2016.	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1.+2.+3.)	157.953.749	160.235.984	98,58
1.	Corporate	68.216.087	74.083.897	92,08
2.	Retail	77.347.207	75.522.465	102,42
3.	Banks and financial organisations	12.390.455	10.629.623	116,57
II	DEPOSITS FROM CUSTOMERS (1.+2.+3.)	296.929.094	316.051.384	93,95
1.	Corporate	57.000.776	78.300.568	72,80
2.	Retail	234.156.293	231.312.395	101,23
3.	Banks and financial organisations	5.772.025	6.438.421	89,65

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

Change in deposits from banks, other financial organisations and customers (without other liabilities and credit liens) in the first quarter of 2017 came mostly as a result of an increase in retail deposits (RSD 2,843.9 million), decrease in corporate deposits (equivalent of RSD 21,299.8 million), and an decrease in deposits from banks and other financial organisations (equivalent of RSD 666.4million). In the first quarter 2017, within these changes, retail FX savings increased EUR 9.2 million.



With its reputation of a safe and stable bank in the Serbian market, the Bank managed, in the observed period, to increase its FX savings deposits by EUR 9.2 million or 0.6%.

Despite a decrease in borrowing interest rates in both the banking sector and the Bank, FX savings in the Bank increased in the first three months 2017 and reached an amount of RSD 1,599.8 million.

Depositor's trust enabled the Bank to maintain its leading position in the Serbian banking sector in terms of the volume of received FX savings, image and recognition.

4.4. Off-balance-sheet items in 2017

(IN 000 RSD)

Р.БР.	ITEM	BALANCE AS OF 31.03.2017.	BALANCE AS OF 31.12.2016.	INDEX
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS FOR AND ON BEHALF OF THIRD PARTIES	4.408.500	4.418.079	99,78
2	ASSUMED FUTURE LIABILITES	35.729.641	32.543.235	109,79
3	RECEIVED GUARANTEES FRO FUTURE LIABILTIIES	0	0	-
4	DERIVATIVES	0	0	-
5	OTHER OFF-BALANCE-SHEET ITEMS	457.788.073	483.408.961	94,70
	TOTAL	497.926.215	520.370.275	95,69

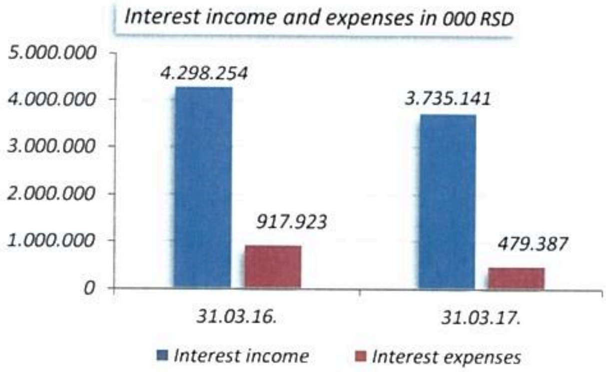
Total off-balance sheet assets of the bank decreased by RSD 22,444.0 million compared to the end of the previous year. As of 31.03.2017 assumed future liabilities totalled RSD 35,729.6 million, which is an increase of RSD 3,186.4 million or 9.8% compared to the end of the previous year, mostly as a result of contingent irrevocable liabilities for undrawn loans and advances. Other off-balance-sheet items decreased by RSD 25,620.9 million or 5.3%, about half of this amount is the reduction of off-balance-sheet records related to repo loans.

5. PROFIT&LOSS FOR THE PERIOD 01.01.2017 TO 31.03.2017

(IN 000 RSD)

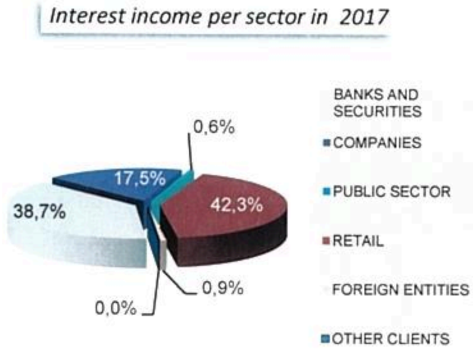
No.	ITEM	31.03.2017.	31.03.2016.	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	3.735.141	4.298.254	86,90
1.2.	Interest expenses	479.387	917.923	52,23
1.	**Net interest income/expenses**	**3.255.754**	**3.380.331**	**96,31**
2.1.	Fee and commission income	1.509.206	1.405.936	107,35
2.2.	Fee and commission expenses	343.704	241.611	142,26
2.	**Net fee and commission income/expenses**	**1.165.502**	**1.164.325**	**100,10**
3.	Net gains/loss from financial assets intended for trade	28.304	18.099	156,38
4.	Net gains/loss from risk hedging			-
5.	Net gains/loss from financial assets initially recognised at fair value through P&L			-
6.	Net gains/loss from financial assets available for sale	43.432	-43.297	-100,31
7.	Net income/expenses from exchange rate difference and the effects of agreed currency clause	-215	-24.405	0,88
8.	Net gains/loss from investment into affiliates and joint ventures	306		-
9.	Other operating income	625.657	70.274	890,31
10.	Net income/expenses from reduction in impairment of financial assets and credit risk bearing off-balance-sheet items	72.775	-492.099	-14,79
11.	**TOTAL NET OPERATING INCOME**	**5.191.515**	**4.073.228**	**127,45**
12.	**TOTAL NET OPERATING EXPENSES**			
13.	Cost of salary, allowance and other personnel expenses	1.098.357	1.052.684	104,34
14.	Depreciation costs	147.263	185.917	79,21
15.	Other expenses	1.463.063	1.431.619	102,20
16.	**PROFIT BEFORE TAX**	**2.482.832**	**1.403.008**	**176,96**
17.	**LOSS BEFORE TAX**			
18.	Profit tax			
19.	Profit from deferred tax			
20.	Loss from deferred tax			
21.	**PROFIT AFTER TAX**	**2.482.832**	**1.403.008**	**176,96**
22.	**LOSS AFTER TAX**			
23.	Net profit from discontinued operations			
24.	Net loss from discontinued operations			
25.	**RESULT FOR THE PERIOD - PROFIT**	**2.482.832**	**1.403.008**	**176,96**
26.	**RESULT FOR THE PERIOD - LOSS**			
27.	Profit belonging to parent bank			
28.	Profit belonging to owners without controlling rights			
29.	Loss belonging to the parent banks			
3-.	Loss belonging to owners without controlling rights			
31.	Earnings per share			
32.	Basic earnings per share			
33.	Reduced (diluted) earnings per share			

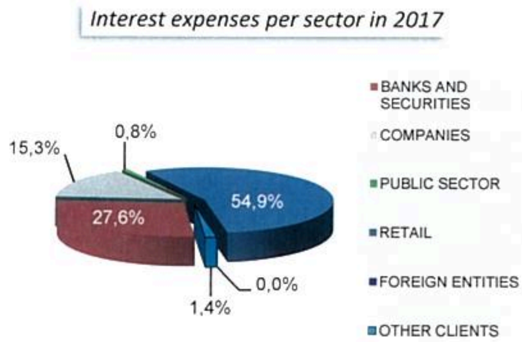
5.1. Interest income and expenses



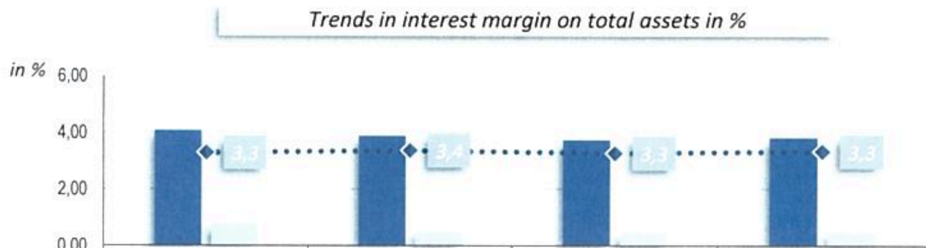
Interest gains are RSD 3,255.8 million, which is a decrease of 3.7% compared to the same period last year.

Interest incoem was RSD 563,1 million or 13.1%, less than in the first quarter last year, while interest expenses decreased by RSD 438.5 million or 47.8%.





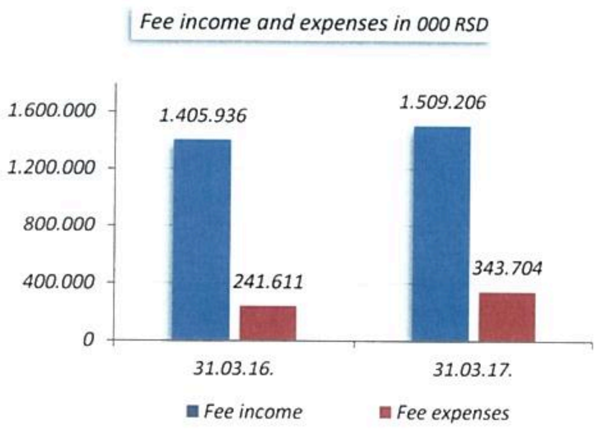
Interest income from retail operations accounts for the highest share in interest income (RSD 1,580.9 million or 42.3%). Interest expenses are also dominated by interest on retail deposits (RSD 263.0 million or 54.9%) which is mostly the result of interest expense from received FX savings.



	2016	January	February	March
Average lending rate	4,1	3,9	3,8	3,8
Average borrowing rate	0,8	0,5	0,5	0,5
Average interest margin	3,3	3,4	3,3	3,3

Average lending interest at the end of the first quarter 2017 was 3.8% and average borrowing rate was 0.5%, so the average interest margin of the Bank in the first quarter 2017 was 3.3%.

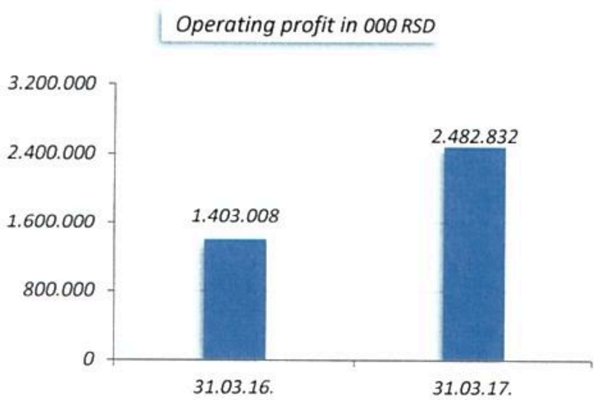
5.2. Fee income and expenses



Compared to the same period last year, fee and commission income for banking services is 103.3 million dinars or 7.3% higher, but fee and commission expenses increased by RSD 102.1 million or 42.3%.

Fee and commission gains for the first quarter 2017 was RSD 1,165.5 million and was 1.2 million dinars higher than in the same period previous year.

5.3. Realized operating profit



After a correction in NPLs last year, in 2017 the Bank started with a much better loan portfolio. In the period between January 1st and 31 March 2017 an operating profit of RSD 2,482.8 million was realized, which is an increase of RSD 1,079.8 million compared to the same period the previous year or 77.0%.

Realized operating profit secured for the Bank, in the first three months of 2017, return on equity of 17.4 and return on average assets of 2.6%.

PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS

No.	ITEM	PRESCRIBED	31.03.2017.	2016.
1.	CAPITAL ADEQUACY RATIO (NET CAPITAL / CREDIT RISK + OPERATING RISKS + OPEN FX POSITION)	MIN. 12%	26,69	26,97
2.	RATIO OF INVESTMENT INTO ENTITIES OUTSIDE THE FINANCIAL SECTOR AND INTO FIXED ASSETS	MAX. 60%	17,22	17,47
3.	LARGE EXPOSURE RATIO	MAX. 400%	38,26	38,48
4.	FX RISK RATIO	MAX. 20%	5,52	2,96
5.	LIQUIDITY RATIO	MIN. 0,8	2,98	2,86

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

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

7. ALL MAJOR TRANSACTIONS WITH RELATED ENTITIES

As of 31.03.2017 entities related to the Bank are:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. two legal entities (Lasta doo Sombor, Menta doo Nis) and a large number of private individuals, in accordance with Article 2 of the Law on Banks in the part that regulates the notion of "entities related to the Bank".

Total exposure to entities related to the Bank, as of 31.03.2017, amounted to RSD 760,302.4 thousand which, compared to the capital of RSD 45,816,285.5 thousand was 1.66% (maximum value of total loans to all entities related to the Bank, according to the Law on Banks, is 25% of capital).

The greatest part of exposure to entities related to the Bank, as of 31.03.2017, was the amount of RSD 510,575.0 thousand or 1.11% of the Bank's capital and are loans to private individuals related to the Bank.

According to Article 37 of the Law on Banks, the Bank did not grant loans to entities related to the Bank on conditions that are more favourable than those applied to other entities that are not related to the Bank.

A more detailed description of the relation of the Bank with related entities is given in Item Related Entities, Notes to Financial Statements.

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

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

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

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

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

Description of the events after the balance-sheet date is presented in Item 6. Notes to financial statements for the first quarter 2017.

9. KEY DATA ON BUSINESS PLAN PERFORMANCE FOR 2017

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

- GDP growth of 1.0% in first quarter 2017, compared to the same period the previous year (Statistics Office, evaluation[5]), plan for the current business year is growth of 3.0% (IFRS),
- stable dinar exchange rate at RSD 123 to the Euro (planned dinar exchange rate compared to the euro at the end of the current year: 1 euro = 123.50 dinars (KB), realised as of 31.03.2017 1 euro = 123.97 dinars),
- inflation rate (y-o-y rate, March 2017/March 2016) is +3.6% and has a growing trend and is currently within the targeted rate for March this year (3.0+/-1.5%).

During 2016, according to the estimates of the Statistics Office, there was y-o-y growth in economic activity of 2.8%. Services sector, with realised y-o-y growth of 2.4% has the most significant effect on the overall economic growth. Good agricultural season resulted in growth in this sector of 8.1% y-o-y. Industry growth was more moderate, 2.2% y-o-y. Construction industry stagnated in the observed period. Total foreign trade in February 2017 was EUR 4.8bn[6] which is an increase of EUR 447.1m (10.3%). NBS FX reserves in March this year were EUR 9.73bn and went up by EUR 229.5m compared to March 2016. Sovereign debt was 24.6bn EUR[7] at the end of March 2017 or 69.2% GDP. In the first two months of the current year, the inflow of foreign direct investments was EUR 212 million[8] while projection for the whole year is more conservative and amounts to EUR 1.6bn. Relaxation of NBS monetary policy resulted in a decrease in interest rate on dinar corporate and retail loans (10.9 and 9.7 pp.). Interest rate on newly approved dinar loans in February amounted to 5.5% for corporate and 10.9% for retail[9]. Banks realized growth in lending activity at the start of this year of 3.7% y-o-y with the increase in retail loans of 10.8% y-o-y and the growth in corporate loans was considerably lower, 1.2% y-o-y. Until the end of 2017 further growth in lending activity of banks is expected, bearing in mind the economic

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[5] Quarterly gross domestic product in constant prices-flash estimate, the first quarter of 2017, Statistics Office

[6] Current macroeconomic trends, April 2017, Ministry of Finance RS

[7] Ibid

[8] Macroeconomic trends in Serbia, April 2017, NBS

[9] Macroeconomic trends in Serbia, April 2017, NBS

growth rate, competition among banks, relaxation of monetary policy and low interest rate in international money market.

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

The Bank's total balance-sheet assets, at the end of the first quarter 2017, was RSD 381,990.1 million and is RSD 5,160.4 million or 1.4% higher compared to the planned value for the end of the year. Significant positive departures from planned values were recorded in item securities, as realized value is RSD 27,706.0 million or 26.1% higher, loans to banks and other financial organisations, realised value is RSD 10,508.0 million higher than the plan.
Lower realized values compared to the planned ones were recorded in loans to customers, a decrease of RSD 14,747.9 million (-17.8%).

In the structure of balance-sheet liabilities there was a positive departure from the planned values in total liabilities (RSD 6,454.3 million), while realization below plan was recorded in deposits (RSD 3,931.9 million, observed in comparison to the previous balance=sheet scheme). This was mostly contributed by a decrease in corporate deposits (RSD 2,267.2 million), decrease in deposits from banks and other financial organisations (RSD 1,361.0 million).

Trends in dinar exchange rate – depreciation (0.4% against the euro), increased to a certain extent the departure of realised values from the planned ones.

Realized and planned items in assets and liabilities of the balance-sheet as of 31.03.2017:

(in 000 RSD)

No.	ITEM	Planned 31.12.2017	Realized 31.03.2017.	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	60.956	53.698	88,09
2.	Securities	106.108	133.814	126,11
3.	**Loans and deposits to customers (3.1.+3.2.+3.3.)**	**168.959**	**157.954**	**93,49**
3.1.	Companies	82.964	68.216	82,22
3.2.	Retail	84.112	77.347	91,96
3.3.	Banks and financial organisations	1.883	12.390	658,19
4.	Other assets	40.807	36.524	89,50
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**376.830**	**381.990**	**101,37**
	LIABILITIES			
1.	**Deposits**	**300.861**	**296.929**	**98,69**
1.1.	Companies	59.268	57.001	96,17
1.2.	Retail	234.460	234.156	99,87
1.3.	Banks and financial organisations	7.133	5.772	80,92
2.	**Other liabilities**	**16.844**	**27.230**	**161,66**
3.	**Liabilities (1.+2.)**	**317.705**	**324.159**	**102,03**
4.	**Total capital**	**59.125**	**57.831**	**97,81**
5.	**TOTAL LIABILITIES (3.+4.)**	**376.830**	**381.990**	**101,37**

9.2. Planned and realized P&L items for the period 01.01.-31.03.2017

(in 000 RSD)

No.	ITEM	Planned 01.01.-31.03.2017	Realized 01.01.-31.03.2017	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	3.728	3.735	100,20
1.2.	Interest expenses	-551	-479	87,07
1.	**Interest gains (1.1.-1.2.)**	**3.177**	**3.256**	**102,47**
2.1.	Fee and commission income	1.570	1.509	96,14
2.2.	Fee and commission expenses	-326	-344	105,35
2.	**Fee and commission gains (2.1. -2.2.)**	**1.244**	**1.166**	**93,72**
3.	Net exchange rate difference and revaluation (FX clause)	0	0	-
4.	Net other operating income and expenses	67	638	949,18
5.	Net expenses/income from indirect write-off of loans and provisions	-825	73	-8,82
6.	Operating expenses	-2.704	-2.649	97,97
7.	**OPERATING PROFIT**	**959**	**2.483**	**258,95**

In P&L items, considerable departure was recorded in net cost of indirect write-off of loans (realized net income was RSD 72.8m while planned expenses were RSD 824.9m). Realised interest gains were RSD 78.6 million higher than planned. Fee and commission gains were lower than planned by RSD 78.1 million. Operating expenses were lower than planned in the same period by RSD 54.9 million, as a result of reduction in operating expenses.

Due to a decrease in net expenses as a result of a decrease in impairment of financial loans and credit risk bearing off-balance-sheet items, as well as a reduction in other operating expenses in the first quarter 2017, the Bank realized profit before tax of 2,482.8m, which is 258.9% above plan for the period 1 January to 31 March 2017.

Signed on behalf of Komercijalna banka ad Beograd:

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

BALANCE SHEET

on 31.03.2017.

(in RSD thousand)

POSITION	ADP code	Amount Current year ammount	 Previous year ammount
1	2	3	4
ASSETS			
Cash and balances with central banks	0001	53.698.437	55.153.209
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	1.355.419	242.920
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	132.458.424	136.123.853
Financial assets held to maturity	0006	-	-
Loans and advances to banks and other financial institutions	0007	31.426.801	40.601.413
Loans and advances to clients	0008	146.039.562	150.411.409
Changes in fair value of items that are the subject of hedging	0009	-	-
Receivables from financial derivatives held for hedging	0010	-	-
Investments in associates and joint ventures	0011	-	-
Investments in subsidiaries	0012	2.611.859	2.611.859
Intangible assets	0013	327.170	362.507
Property, plant and equipment	0014	5.793.766	5.856.458
Investment property	0015	2.094.847	2.217.816
Current tax assets	0016	-	-
Deferred tax assets	0017	542.856	-
Non-current assets held for sale and assets of discontinued operations	0018	183.170	183.170
Other assets	0019	5.457.818	6.252.855
TOTAL ASSETS (from 0001 to 0019)	0020	381.990.129	400.017.469
LIABILITIES			
Financial liabilities at fair value through profit or loss held for trading	0401	-	-
Financial liabilities initially recognized at fair value through profit or loss	0402	-	-
Liabilities from financial derivatives held for hedging	0403	-	-
Deposits and other liabilities to banks, other financial institutions and the central bank	0404	6.303.699	7.834.962
Deposits and other liabilities to other clients	0405	303.883.929	322.621.360
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.275.560	6.178.390
Provisions	0409	1.795.134	1.787.294
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	566.448	23.592
Other liabilities	0413	5.334.536	6.147.569
TOTAL LIABILITIES (from 0401 to 0413)	0414	324.159.306	344.593.167
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	2.832.529	349.698
Loss	0418	8.063.183	8.063.183
Reserves	0419	23.026.927	23.103.237
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	57.830.823	55.424.302
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	381.990.129	400.017.469

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД

INCOME STATEMENT

from 01.01.2017. to 31.03.2017.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
Interest income	1001	3.735.141	3.735.141	4.298.254	4.298.254
Interest expenses	1002	479.387	479.387	917.923	917.923
Net interest profit (1001-1002)	1003	3.255.754	3.255.754	3.380.331	3.380.331
Net interest loss (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1.509.206	1.509.206	1.405.936	1.405.936
Fee and commission expenses	1006	343.704	343.704	241.611	241.611
Net fee and commission income (1005 - 1006)	1007	1.165.502	1.165.502	1.164.325	1.164.325
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains on financial assets held for trading	1009	28.304	28.304	18.099	18.099
Net loss on financial assets held for trading	1010	-	-	-	-
Net gains from risk protection	1011	-	-	-	-
Net loss from risk protection	1012	-	-	-	-
Net gains on financial assets that are initially recognized at fair value through profit or loss	1013	-	-	-	-
Net losses on financial assets that are initially recognized at fair value through profit or loss	1014	-	-	-	-
Net profit from sale of securities	1015	43.432	43.432	-	-
Net loss from sale of securities	1016	-	-	43.297	43.297
Net income from foreign exchange differences and effects of contracted foreign currency clause	1017	-	-	-	
Net foreign exchange losses and the effects of contracted foreign currency clause	1018	215	215	24.405	24.405
Net gains on investments in associates and joint ventures	1019	306	306	-	-
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	625.657	625.657	70.274	70.274
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1022	72.775	72.775	-	-
Net impairment losses of financial assets and off-balance sheet credit risk items	1023	-	-	492.099	492.099
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	5.191.515	5.191.515	4.073.228	4.073.228
NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1025	-	-	-	-
Saleries, wages, and other personnel indemnities	1026	1.098.357	1.098.357	1.052.684	1.052.684
Depreciation costs	1027	147.263	147.263	185.917	185.917
Other expenses	1028	1.463.063	1.463.063	1.431.619	1.431.619
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	2.482.832	2.482.832	1.403.008	1.403.008
LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030	-	-	-	-
Tax on profit	1031	-	-	-	-
Deffered tax income for the period	1032	-	-	-	-
Deffered tax expense for the period	1033	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	2.482.832	2.482.832	1.403.008	1.403.008
LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035	-	-	-	-
NET PROFIT OF DISCONTINUED OPERATIONS	1036	-	-	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1037	-	-	-	-
NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038	2.482.832	2.482.832	1.403.008	1.403.008
NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1039	-	-	-	-
Net profit which belongs to owners of parent legal entity	1040	-	-	-	-
Net profit which belongs to minority investors	1041	-	-	-	-
Net loss which belongs to owners of parent legal entity	1042	-	-	-	-
Net loss which belongs to minority investors	1043	-	-	-	-
Earnings per share					
Basic earnings per share (in RSD, rounded)	1044	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1045	-	-	-	-

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

REPORT ON OTHER FINANCIAL RESULT

from 01.01.2017. to 31.03.2017.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	2.482.932	2.482.932	1.403.008	1.403.008
LOSS FOR THE PERIOD	2002	-	-	-	-
Other result for the period		-	-	-	-
Components of other result that cannot be reclassified to profit or loss: Increase of revaluation reserves against intangible assets and fixed assets	2003	-	-	-	-
Decrease of revaluation reserves against intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2007	-	-	-	-
Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2008	-	-	-	-
Components of other result that can be reclassified to profit or loss: Positive effects of changes in fair value based on financial assets available for sale	2009	1.031	1.031	296.422	296.422
Unrealized losses arising from securities available for sale	2010	77.341	77.341	369.484	369.484
Gains from hedging instruments in a cash flow hedge	2011	-	-	-	-
Losses from hedging instruments in a cash flow hedge	2012	-	-	-	-
Positive cumulative differences arising from currency conversions in foreign exchange operations	2013	-	-	-	-
Negative cumulative differences arising from currency conversions in foreign exchange operations	2014	-	-	-	-
Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2015	-	-	-	-
Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2016	-	-	-	-
Tax-related profit that pertains to other result for the period	2017	-	-	-	-
Tax-related loss that pertains to other result for the period	2018	-	-	-	-
Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019	-	-	-	-
Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020	**76.310**	**76.310**	**73.062**	**73.062**
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	**2.406.522**	**2.406.522**	**1.329.946**	**1.329.946**
TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0	2022	-	-	-	-
Total positive result for the period that pertains to parent entity	2023	-	-	-	-
Total positive result for the period that pertains to owners without control rights	2024	-	-	-	-
Total negative result for the period that pertains to parent entity	2025	-	-	-	-
Total negative result for the period that pertains to owners without control rights	2026	-	-	-	-

Coloumn 3. for: 1. quartal 01.01.-31.03.; 2. quartal 01.04.-30.06.; 3. quartal 01.07.-30.09.
Coloumn 4. for: 1. quartal 01.01.-31.03.; 2. quartal 01.01.-30.06.; 3. quartal 01.01.-30.09.

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

CASH FLOW STATEMENT

from 01.01.2017. to 31.03.2017.

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2017.	Amount 01.01-31.03.2016
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3001	6.859.926	6.096.141
1.	Inflows from Interest	3002	4.680.608	4.612.386
2.	Inflows from allowances	3003	1.530.202	1.430.147
3.	Inflows from other operating income	3004	647.366	44.422
4.	Inflows from dividends and participation in profit	3005	1.750	9.186
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3006	3.514.356	3.404.550
5.	Outflows from interest	3007	465.398	879.567
6.	Outflows from allowances	3008	345.108	242.216
7.	Outflows from gross salleries, wages and other personnel indemnities	3009	1.112.538	892.117
8.	Outflows from taxes, contributions and other obligations from income	3010	193.411	170.079
9.	Outflows from other operating expenses	3011	1.397.901	1.220.571
III.	**Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)**	3012	3.345.570	2.691.591
IV.	**Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)**	3013	-	-
V.	**Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)**	3014	19.002.256	18.143.729
10.	Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	16.633.755	1.486.615
11.	Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3016	2.368.501	2.084.492
12.	Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3017	-	-
13.	Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients	3018	-	14.572.622
14.	Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3019	-	-
15.	Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3020	-	-
VI.	**Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)**	3021	20.451.817	
16.	Increase in loans and advances to banks, other financial institutions, central bank and other clients	3022	-	-
17.	Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3023	-	-
18.	Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3024	-	-
19.	Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients	3025	20.451.817	-
20.	Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3026	-	-
21.	Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3027	-	-
VII.	**Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)**	3028	1.896.009	20.835.320
VIII.	**Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	1.896.009	20.835.320
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
Б.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash inflows from investing activities (од 3035 до 3039)**	3034	15.805.556	7.666.798
1.	Inflows from long-term investment in securities	3035	15.686.615	7.666.767
2.	Inflows from sale of investments in subsidiaries and associates and joint ventures	3036	-	-
3.	Inflows from sale of intangible assets, property, plant and equipment	3037	59	31
4.	Inflow of sale of investment property	3038	118.882	-
5.	Other inflows from investing activities	3039	-	-
II.	**Cash outflows from investing activities (from 3041 to 3045)**	3040	16.345.975	22.742.398
6.	Outflows from investment in long-term securities	3041	16.287.994	22.424.236
7.	Outflows from purchase of investments in subsidiaries and associates and joint ventures	3042	-	-
8.	Outflows from purchase of sale of intangible assets, property, plant and equipment	3043	57.981	318.162
9.	Outflows from purchase of investment property	3044	-	-
10.	Other outflows from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	540.419	15.075.600
В.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflows from financing activities (from 3049 to 3054)**	3048	25.953.821	29.296.128
1.	Inflows from capital increase	3049	-	-
2.	Cash inflows from subordinated obligations	3050	-	-
3.	Cash inflows from loans received	3051	25.953.821	29.296.128
4.	Inflows from securities	3052	-	-
5.	Inflows from sale of own shares	3053	-	-
6.	Other inflows from financing activities	3054	-	-
II.	**Cash outflows from financing activities (from 3056 to 3060)**	3055	27.117.813	29.725.754
7.	Outflows from purchase of own shares	3056	-	-
8.	Cash outflows from subordinated obligations	3057	-	-
9.	Cash outflows from loans received	3058	27.117.813	29.725.754
10.	Cash outflows from securities	3059	-	-
11.	Other outflows from financing activities	3060	-	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	1.163.992	429.626
Г.	**TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	67.621.559	61.202.796
Д.	**TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	67.429.961	55.872.702
Ђ.	**NET INCREASE IN CASH (3063 - 3064)**	3065	191.598	5.330.094
Е.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	-
Ж.	**CASH AT THE BEGINNING OF THE YEAR**	3067	34.945.610	36.227.664
З.	**PROFIT ON EXCHANGE**	3068	56.128	65.457
И.	**LOSS ON EXCHANGE**	3069		-
Ј.	**CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	35.193.336	41.623.215

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2017. to 31.03.2017.

(in RSD thousand)

ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2-3+4+5+6-7+8-9)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)<0
1		2		3		4		5		6		7		8		9		10		11
Opening balance as of January 1st of preceding year	4001	17.191.466	4029		4057	22.843.084	4085	24.935.440	4113	3.977.808	4127	227.944	4141	179.550	4175	6.061.358	4209	62.838.046	4215	-
Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4058		4086		4114		4128		4142		4176					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059		4087		4115		4129		4143		4177					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3)	4004	17.191.466	4032		4060	22.843.084	4088	24.935.440	4116	3.977.808	4130	227.944	4144	179.550	4178	6.061.358	4210	62.838.046	4216	-
Total positive other result for the period									4117	338.688	4131	222.857								
Total negative other result for the period									4118		4132									
Profit for the year													4145							
Loss for the year															4179	8.063.183				
Transfer from reserves to result due to release of reserves – increase													4146		4180					
Transfer from reserves to result due to release of reserves – decrease													4147		4181					
Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089						4148		4182					
Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090						4149		4183					
Profit distribution – increase	4007		4035		4063		4091						4150		4184					
Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092	6.143.612					4151	156.019	4185	6.299.631				
Dividend payments	4009		4037		4065		4093						4152	23.531	4186					
Other – increase	4010		4038		4066		4094						4153	349.698	4187	238.273				
Other – decrease	4011		4039		4067		4095						4154		4188					
Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0	4012	0	4040	0	4068	0	4096	0					4155	170.148	4189	0				
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013	0	4041	0	4069	0	4097	6.143.612					4156		4190	6.061.358				
Balance as of December 31st of preceding year (number 4+5-6+7+8+9-10+18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)	4014	17.191.466	4042	0	4070	22.843.084	4098	18.791.828	4119	4.316.496	4133	5.087	4157	349.698	4191	8.063.183	4211	55.424.302	4217	-
Opening balance as of January 1st of the current year	4015	17.191.466	4043		4071	22.843.084	4099	18.791.828	4120	4.316.496	4134	5.087	4158	349.698	4192	8.063.183	4212	55.424.302	4218	-
Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135		4159		4193					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136		4160		4194					
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4018	17.191.466	4046	0	4074	22.843.084	4102	18.791.828	4123	4.316.496	4137	5.087	4161	349.698	4195	8.063.183	4213	55.424.302	4219	-
Total positive other result for the period									4124		4138	1.031								
Total negative other result for the period									4125	77.341	4139									
Profit for the year													4162	2.482.831						
Loss for the year															4196					
Transfer from reserves to result due to release of reserves – increase													4163		4197					
Transfer from reserves to result due to release of reserves – decrease													4164		4198					
Transactions with owners, recorded directly in equity – increase	4019		4047		4075		4103						4165		4199					
Transactions with owners, recorded directly in equity – decrease	4020		4048		4076		4104						4166		4200					
Profit distribution – increase	4021		4049		4077		4105						4167		4201					
Profit distribution, and/or loss coverage – decrease	4022		4050		4078		4106						4168		4202					
Dividend payments	4023		4051		4079		4107						4169		4203					
Other – increase	4024		4052		4080		4108						4170		4204					
Other – decrease	4025		4053		4081		4109						4171		4205					
Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0	4026	0	4054	0	4082	0	4110	0					4172		4206	0		0		
Total transactions with owners (number 31-32+33-34-35+36- 37) < 0	4027	0	4055	0	4083	0	4111	0					4173		4207	0		0		
Balance as of March 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)	4028	17.191.466	4056	0	4084	22.843.084	4112	18.791.828	4126	4.239.155	4140	4.056	4174	2.832.529	4208	8.063.183	4214	57.830.823	4220	-

КОМЕРЦИЈАЛНА БАНКА
АД Београд

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER 2017

Belgrade, May 2017

1. INCORPORATION AND OPERATION OF THE BANK

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

As of 31.03.2017 the largest voting shareholders of the Bank are:
1. Republic of Serbia and
2. EBRD, London
The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

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

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

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

As of 31 March 2017, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 23 branches and 207 sub-branches.

As of 31 March 2017, the Bank has 2,823 employees, and on 31 December 2016 the number of employees was 2,858. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

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

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

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

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

2.2. Assessment Rules

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

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

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's balance sheet as of 31 March 2017, with comparative data for 2016, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 71/2014 and 135/2014) can be seen in more detail from the following overview (reported in thousands of dinars):

In RSD thousand

	31.03.2017		31.12.2016	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	55,698,437	14.06	55,153,209	13.79
Financial assets at fair value through profit and loss, held for trading	1,355,419	0.35	242,920	0.06
Fin. assets available for sale	132,458,424	34.68	136,123,853	34.03
Fin. assets held to maturity	-	-	-	-
Loans and receivables due from banks and other financial organizations	31,426,801	8.23	40,601,413	10.15
Loans and receivables from customers	146,039,562	38.23	150,411,409	37.60
Investments in subsidiaries	2,611,859	0.68	2,611,859	0.65
Intangible assets	327,170	0.09	362,507	0.09
Property, plant and equipment	5,793,766	1.52	5,856,458	1.46
Investment property	2,094,847	0.55	2,217,816	0.55
Current tax assets	-	-	-	-
Deferred tax assets	542,856	0.14	-	-
Non-current assets held for sale and assets from discontinued operations	183,170	0.05	183,170	0.05
Other assets	5,457,818	1.42	6,252,855	1.57
TOTAL ASSETS	**381,990,129**	**100.00**	**400,017,469**	**100.00**

In RSD thousand

	31.03.2017		31.12.2016	
LIABILITIES	Amount	%	Amount	%
Financial liabilities at fair value through profit and loss, held for trading	-	-	-	-
Deposits and other liabilities due to banks, other fin. organizations and central bank	6,303,699	1.65	7,834,962	1.96
Deposits and other liabilities due to other customers	303,883,929	79.55	322,621,360	80.65
Subordinated liabilities	6,275,560	1.64	6,178,390	1.54
Provisions	1,795,134	0.47	1,787,294	0.45
Deferred tax liabilities	566,448	0.15	23,592	0.01
Other liabilities	5,334,536	1.40	6,147,569	1.53
Equity	57,830,823	15.14	55,424,302	13.86
TOTAL LIABILITIES	**381,990,129**	**100.00**	**400,017,469**	**100.00**

INCOME STATEMENT

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

In RSD thousand

	31.03.2017	31.03.2016
INCOME	Total	Total
Interest income	3,735,141	4,298,254
Fee and commission income	1,509,206	1,405,936
Net gains on the financial assets held for trading	28,304	18,099
Net gains on financial assets available for sale	43,432	-
Net gains on investments in subsidiaries and joint ventures	306	-
Other operating income	625,657	70,274
Net gains on reduction in impairments of financial assets and credit risk weighted off-balance sheet items	72,775	-

EXPENSES	Total	Total
Interest expense	479,387	917,923
Fee and commission expense	343,704	241,611
Net loss from financial assets held for trading		
Net expense from exchange rate differentials and the	-	43,297
effects of agreed currency clause	215	24,405
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	-	492,099
Cost of salaries, allowances and other personnel expenses	1,098,357	1,052,684
Depreciation cost	147,263	185,917
Other expenses	1,463,063	1,431,619

Result of the period (profit/loss)	**2,482,832**	**1,403,008**

CASH FLOW STATEMENT

In RSD thousand

Item	31.03.2017 Total	31.03.2016 Total
Cash inflows from operating activities	**6,859,926**	**6,096,141**
Inflow from interest	4,680,608	4,612,386
Inflow from fees	1,530,202	1,430,147
Inflow from other operating activities	647,366	44,422
Inflow from dividends and share in profit	1,750	9,186
Cash outflows from operating activities	**3,514,356**	**3,404,550**
Interest payments	465,398	879,567
Fee payments	345,108	242,216
Payments for gross salaries, allowances and other personnel expenses	1,112,538	892,117
Taxes, contributions and other duties charged to income	193,411	170,079
Payments for other operating expenses	1,397,901	1,220,571
Net cash inflow from operating activities before increase or decrease in loans and deposits	**3,345,570**	**2,691,591**
Decrease in lending and increase in deposits and other liabilities	**19,002,256**	**18,143,729**
Decrease in loans and receivables from banks, other financial organizations, the central bank and customers	16,633,755	1,486,615
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	2,368,501	2,084,492
Increase in deposits and other liabilities to banks, other financial organizations, the central bank and customers	-	14,572,622
Increase in lending and decrease in received deposits and other liabilities	**20,451,817**	**-**
Increase in loans and receivables from banks, other financial organizations, the central bank and customers	-	-
Increase in financial assets initially recognized at fair value through income statement, financial assets held for trading and other securities not held for investment	-	-
Decrease in deposits and other liabilities to banks, other financial organizations, central banks and customers	20,451,817	-

Item	31.03.2017. Total	31.03.2016. Total
Net inflow of cash from operating activities before profit tax	**1,896,009**	**20,835,320**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	-	-
Paid dividends	-	-
Net inflow of cash from operating activities	**1,896,009**	**20,835,320**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**15,805,556**	**7,666,798**
Inflow from investment securities	15,686,615	7,666,767
Inflow from sales of intangible assets, property, plants and equipment	59	31
Inflow from sale of investment property	118,882	-
Cash outflow from investment activities	**16,345,975**	**22,742,398**
Outflow from investing in investment securities	16,287,994	22,424,236
Outflow for purchase of intangible assets, property, plants and equipment	57,981	318,162
Outflow for purchase of investment property	-	-
Net outflow of cash from investment activities	**540,419**	**15,075,600**
Cash inflow from financing activity	**25,953,821**	**29,296,128**
Inflow from borrowings	25,953,821	29,296,128
Cash outflow from financing activity	**27,117,813**	**29,725,754**
Outflow from borrowings	27,117,813	29,725,754
Net outflow of cash from financing activity	**1,163,992**	**429,626**
Total cash inflow	**67,621,559**	**61,202,796**
Total cash outflow	**67,429,961**	**55,872,702**
Net increase in cash	**191,598**	**5,330,094**
Net decrease in cash	**-**	**-**
Cash and cash equivalents at the start of the year	**34,945,610**	**36,227,664**
Exchange rate gains	56,128	65,457
Exchange rate loss	-	-
End of period cash and cash equivalents	**35,193,336**	**41,623,215**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Net interest income in the period January – March 2017 amounts to RSD 3,255,754 thousand and is lower by RSD 124,577 thousand, or 3.69% compared to the same quarter last year.

3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period January – March 2017 amounts to RSD 1,165,502 thousand and is higher compared to the same period 2016 by 0.10%, or RSD 1,177 thousand.

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

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

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

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

In the observed period of 2017 the Bank showed the net gains against financial assets held for trading in the amount of RSD 28,304 thousand (RS bonds and investment units of KombankInvest).

As for financial assets available for sale the net gains from sale were recorded amounting to RSD 43,432 thousand (bonds and T-bills of the Republic of Serbia and foreign entities' bonds), Gains/losses based on contracted currency clause and changes in the exchange rate of the securities available for sale, and interest income under the securities available for sale are shown within the Income Statement.

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

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

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

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

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

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

Net expenses from exchange rate differentials in the reporting period January – March 2017 amount to RSD 215 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position.

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

3.5. Other Operating Income

In the overall other operating income amounting to RSD 625,657 thousand, other revenues account for the most important share of 92.06 % (same period last year 21.58 %), which mainly refer to the income generated under the court case ruled in favor of the Bank, on the basis of final decision amounting to RSD 566,450 thousand. Excluding the effect of revenues generated from the court dispute ruled in favor of the Bank, the percentage of share of other revenues in total operating income equals 9.39%. Within other income, equally important items relate to interest income from previous years generated from corporate and retail operations and entrepreneurs in the total amount of RSD 7,474 thousand.

Within the other operating income the most significant items relate to revenues generated from leasing the real estates in the amount of RSD 26,776 thousand. Other operating revenues have been generated under the reimbursement of costs in relation to: mobile phones, court and utility costs and revenues on the basis of using the company cars for private purposes.

Income from dividends is part of the position: Other Income. Dividends received from investment in shares of other legal entities in the amount of RSD 1,750 thousand are shown as income from dividends at the moment of their collection. Out of total amount of received dividends, RSD 1,441 thousand relate to dividend of Visa, and RSD 309 thousand to dividend received from Master.

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

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

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

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

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

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

In the period January-March 2017, net income against reduction of indirect write-offs of loans and provisions was recorded in the amount of RSD 72,775 thousand, while in the same period 2016 the net expenses incurred on the same basis amounted to RSD 492,099 thousand. This is primarily a result of the Bank's orientation to increase over the previous 2016 the coverage of NPLs by impairments and provisions against expenses of the period, in order to „clean the assets" for the purpose of privatization, which was for the most part realized throughout 2016.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 1,098,357 thousand are higher by RSD 45,673 thousand or 4.34 % compared to the same period last year. Net increase came primarily as a result of paid fees / severance pay for consensual termination of employment, growth of labor cost that is applied for calculation of salaries, by 2.17% since April 2016 and increase of average salary in the Republic of Serbia, which is the basis for calculating the meal allowance, vacation allowance and contributions by 4.2%, compared to the same period last year and the effects of the process of amending the internal organization and systematization.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 147,263 thousand are lower relative to the period January – March 2016 by RSD 38,654 thousand or 20.79%, mainly due to full depreciation of certain fixed and intangible assets, as reduced basis for calculation, on account of impairment of immovable property at the end of 2016 – reduction to fair value on the basis of valuation performed by the hired certified valuer.

3.9. Operating Expenses and Other Operating Expenses

Operating and other operating expenses are stated in the amount of RSD 1,463,063 thousand and they have been increased in comparison to the same period last year by RSD 31,444 thousand, or 2.20%. Other costs consist of:

a) operating expenses amounting *to RSD 1,403,689 thousand,*
b) cost of provisions for court disputes amounting to RSD 17,424 thousand and
c) other expenses amounting to RSD 41,951 thousand

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

a) Operating expenses in the total amount of RSD 1,403,689 thousand, as follows:

- costs of production services in the amount of RSD 442,177 thousand, of which the largest amounts come from: rental costs for office space, equipment and advertising space in the amount of RSD 138,457 thousand, costs of managing and maintaining ATMs and POS terminals network and other equipment for payment cards amounting to RSD 87,408 thousand, costs of maintenance of information equipment and software in the amount of RSD 54,240 thousand, costs of advertising and marketing amounting to RSD 47,765 thousand and cost of heating amounting to RSD 23,828 thousand

- intangible costs totaling RSD 632,743 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 429,983 thousand.

- cost of materials amounting to RSD 107,176 thousand

Operating expenses of the current period are lower year-on-year by RSD 1,713 thousand.

b) expenses related to provisions for court disputes amounting to RSD 17,424 thousand relate to increase in provisions for court-related liabilities of the Bank

c) Other expenses in the amount of RSD 41,951 thousand.

Out of total amount of other expenses for the period January – March 2017, *totaling RSD 41,951 thousand* the largest part relates to costs of insurance policy of borrowers' receivables in the amount of RSD 24,012 thousand. Other expenses on such basis in Q1 2016 amounted to RSD 15,376 thousand.

Compared to the same period 2016, other expenses are higher by RSD 15,733 thousand, given that there has been a significant increase in number of users of loans for pensioners, which must be secured by life insurance policy that is borne by the Bank and in favor of Generali insurance company and for which the costs of premium are the highest in the first year of loan utilization and also considering the increased expenses against the lost labor disputes.

BALANCE SHEET

Balance sheet total as of 31.03.2017 amounts to RSD 381,990,129 thousand, which in comparison to 31.12.2016, represents a decrease by RSD 18,027,340 thousand, or 4.51%. Such decrease is largely a result of reduction in the item loans and receivables from banks and other financial organizations and Bank's clients on the assets side, or reduction in deposits by Bank's clients on the liabilities side.

ASSETS

In total Bank's assets loans and deposits to customers and banks have a dominant share of 46.46% (2016: 47.75%), financial assets available for sale with share of 34.68% (2016: 34.03%), cash and funds at the central bank with a share of 14.06% (2016: 13.79%), other assets with a share of 1.42% (2016: 1.57%), property, plant and equipment with a share of 1.52% (2016: 1.46%) and investment in subsidiaries of 0.68% (2016: 0.65%).

3.10. Cash and Funds with the Central Bank

Cash and assets with the central bank as of 31.03.2017 amount to RSD 53,698,437 thousand, and account for 14.06% of Bank's total assets (13.79 % as of 31.12.2016). Compared to 31.12.2016 the position has decreased by RSD 1,454,772 thousand.

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

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

Investment in securities at fair value in the amount of RSD 1,355,419 thousand and financial assets available for sale in the amount of RSD 132,458,424 thousand, which together make up a percentage of share of 35.03% of total assets (2016: 34.09%), have decreased compared to 2016 by RSD 2,552,930 thousand. The recorded drop is entirely related to investments in financial assets available for sale amounting to RSD 3,665,429 thousand on account of realization of securities – sale or maturity, while the investments in securities held of trading recorded an increase of RSD 1,112,499 thousand.

In the structure of dinar financial assets available for sale as of 31.03.2017 the largest share is that of the bonds of the Republic of Serbia (84.36%), followed by T-bills of the Republic of Serbia with (15.64%). As for securities in foreign currency, these are made up of bonds of the Republic of Serbia (93.11%), T-bills of the Republic of Serbia (4.81%) and bonds by foreign banks and countries equaling (2.08%).

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

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

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

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

As of 31.03.2017, loans and receivables from banks and other financial organizations amount to RSD 31,426,801 thousand with a percentage of share of 8.23% of total assets (2016: RSD 40,601,413 thousand) and are lower by RSD 9,174,612 thousand. Decrease compared to 31.12.2016 is mostly a result of decrease in REPO transactions by RSD 13,000,000 thousand, on one side, and an increase of funds in foreign currency deposited with foreign banks for a short term of up to one month, by RSD 2,690,337 thousand and also an increase in regular foreign exchange current accounts abroad by RSD 2,097,389 thousand, on the other side.

Loans and receivables from customers as of 31.03.2017 amount to RSD 146,039,562 thousand with a percentage of share of 38.23% of total assets (2016: RSD 150,411,409 thousand) and as such have predominant share in asset structure. Total loans to customers are lower by RSD 4,371,847 thousand, primarily as a result of a decrease due to regular repayment of loans for liquidity and working assets, as well as investment loans, of which the most significant individual amounts relate to the clients: NIS a.d. Novi Sad, amounting to about RSD 729,000 thousand, Telekom Srbija a.d. Beograd, amounting to approximately RSD 301,000 thousand, Železara Smederevo d.o.o, amounting to approximately RSD 93,000 thousand, Slodes d.o.o, in the amount of about RSD 108,000 thousand, Delta agrar, amounting to approximately RSD 178,000 and Sunoko d.o.o Novi Sad, amounting to about RSD 76,000 thousand; the above stated drop came also as a result of early repayment of other customers' loans in total amount of approximately RSD 212,000 thousand.

3.13. Investment in Subsidiaries

Investments in subsidiaries are RSD 2,611,859 thousand and account for 0, 68% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits. Transactions with related entities have been carried out on market conditions.

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

All these items account for only 3.78% of total assets, of which the highest percentage relates to property, plant and equipment amounting to 1.52%, other assets totaling 1.43% and investment property equaling 0.55%.

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

Equity investments in banks, foreign and local legal entities as of 31.03.2017 amount to RSD 1,477,574 thousand (gross amount, excluding impairment provision) of which stake in the equity of foreign entities amounts to RSD 929,812 thousand and these are stakes in the companies Master and Visa International. Impairment provision for equity investments in banks, foreign and local legal entities as of 31.03.2017 amounts to RSD 502,169 thousand.

LIABILITIES

In the period January – March 2017 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers with a total percentage of 81.20% (2016: 82.61%) of total liabilities. Share of capital in total liabilities equals 15.14% (2016: 13.86%).

Other items account for 3.66% of total liabilities, with the largest part referring to subordinated liabilities with a percentage of 1.64%.

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

Deposits are shown at the level of deposited amounts, which can be increased by calculated interest, which depends on the contractual relationship between the depositor and the Bank. The Bank agreed the interest rates on deposits depending on the amount of deposit.
FX deposits are shown in Dinar at middle exchange rate of currencies applicable as at the balance sheet date.
In the balance sheet, deposits are shown as transaction and other deposits of the financial sector and deposits from other customers.

Deposits and other liabilities to customers account for the largest share in the structure of liabilities in the amount of RSD 303,883,929 thousand thus accounting for 79.55% of total liabilities (2016: 80.65%), followed by deposits and other liabilities to banks, other financial organizations and the central bank in the amount of RSD 6,303,699 thousand with a share of 1.65% (2016: 1.96%).

When compared to 2016 total decrease of deposits amounts to RSD 20,268,694 thousand: transaction deposits are lower by RSD 20,555,359 thousand, while other deposits recorded a growth amounting to RSD 286,665 thousand.

Decrease in transaction deposits came as a result of reduction in RSD transaction deposits in the amount of RSD 23,775,051 thousand, while transaction deposits in foreign currency recorded a growth by RSD 3,219,692 thousand compared to 31.12.2016. The structure of transaction deposits is still dominated by deposits in local currency with a share of 58.29%, while the remaining 41.71% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 94.32%, while dinar deposits account for 5.68%. Foreign currency savings have been increased by EUR 9,2 million.

Borrowings

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 11,939,403 thousand and with a share percentage in total liabilities of 3.13% it recorded a reduction relative to 2016 in the amount of RSD 1,087,769 thousand due to regular repayment of loan tranches.
Within the item – liabilities to foreign banks, same as last year, the borrowings from the following foreign creditors account for the largest share:

1. GGF (RSD 407,854 thousand) and
2. EBRD (RSD 3,860,715 thousand).

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

1. LEDIB 1 and 2 (Loan from Kingdom of Denmark) – RSD 11,141 thousand,
2. Government of the Republic of Italy – RSD 310,884 thousand,
3. European Investment Bank (EIB) – RSD 5,151,052 thousand,
4. European Agency for Reconstruction and Development (EAR) – RSD 169,192 thousand and
5. KfW – RSD 2,028,566 thousand.

3.16. Subordinated Liabilities

In accordance with the regulations of the National Bank of Serbia regarding capital requirements and implementation of Basel II standard, in 2011 the Bank strengthened its capital base by taking a subordinated loan from the International Finance Corporation. Subordinated liabilities as of 31 March 2017 amount to RSD 6,275,560 thousand and they comprise the subordinated loan in dinar equivalent of EUR 50,000 thousand or RSD 6,198,395 thousand reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 6.328 thousand and accrued liabilities from interest of RSD 83,493 thousand. The loan was approved with a maturity date of 15 December 2017.

3.17. Provisions

Provisions in the amount of RSD 1,795,134 thousand consist of provisions for: coverage of liabilities (court disputes), long-term employee salaries and provisions for losses on off-balance sheet assets. Compared to 2016, in the reporting period there was an increase in provisions in the amount of RSD 7,840 thousand. Net increase came as a result of the increase in provisions for court disputes by RSD 13,923 thousand and a decrease of provisions for losses on off-balance-sheet assets of RSD 6,083 thousand.

Provisions for court disputes

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

Compared to 31.12.2016 there were changes in the total level of these provisions, in the amount of RSD 13,923 thousand recognized in the profit and loss account charged against the cost of provisions for court liabilities, as a result of an increase in provisions for the existing disputes and allocation of provisions for new cases. For a total of thirty-six cases as of 31.03.2017 the provisions of RSD 927,760 thousand were allocated.

The most important items relate to:

Provisions for the subject of court dispute relating to arrangement with Interexport a.d. Beograd (in bankruptcy) – for covered letters of credit from 1991, amounting to RSD 360,049 thousand, or USD 1,946 thousand for the principal amount and USD 1,089 thousand for the interest

Provisions made under the Performance Bond Contract with the Privatization Agency (case of Vektra M d.o.o. Beograd), in the amount of RSD 232,171 thousand for interest. The contract concerns the sale of the socially-owned capital of DP Župa concluded on 13 January 2004 between the Privatization Agency of the Republic of Serbia and the company "Vektra M" d.o.o. Beograd. Provisions for the performance bond (provisions for off-balance-sheet) were made in the Bank's books for this case, in the amount of RSD 260,686 thousand.

For another thirty-four court disputes the Bank has made provisions in total amount of RSD 335,540 thousand.

3.18. Other liabilities

Other liabilities amounting to RSD 5,334,536 thousand are lower by RSD 813,033 thousand compared to 2016. Percentage of share of other liabilities in the total liabilities is 1.40% (2016: 1.54%). The most important items in other liabilities are: liabilities from profit amounting to RSD 2,434,302 thousand, liabilities from calculation of purchase and sale of foreign currency amounting to RSD 495,872 thousand, other liabilities from SPOT transaction of RSD 847,050 thousand, liabilities for net salaries charged against expenses in the amount of RSD 181,501 thousand, liabilities from closed accounts by clients deleted at the competent register in the amount of RSD 141,449 thousand.

3.19. Capital

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

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

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

As at 31.03.2017 the Bank's capital consists of:

In RSD thousand	2017	2016
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from profit	18,791,828	18,791,828
Revaluation reserves	4,163,086	4,240,027
Unrealized losses based on securities available for sale	(4,056)	(5,087)
Actuarial gains	76,069	76,069
Reserves	23,026,927	23,103,237
Accumulated loss/profit	(8,063,183)	349,698
Profit/Loss	2,832,529	(8,063,183)
Balance as at date	**57,830,823**	**55,424,302**

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

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

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

The capital adequacy ratio of the Bank as at 31 March 2017, calculated on the basis of the financial statements, equals 26.69% having implemented the applicable decisions of the National Bank of Serbia for 2017.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 31.03.2017 the pecuniary part of capital is above the prescribed level.

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

The structure of the share capital – ordinary shares as at 31.03.2017 is as follows:

Shareholder name	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
EAST CAPITAL (lux) BALKAN FUND	1.46
INVEJ DOO, Beograd	1.37
UNICREDIT BANK Serbia	1.23
Company Dunav osiguranje	1.02
STANKOM Co DOO BEOGRAD	0.70
UNICREDIT BANK Serbia – custody account	0.55
Evropa Osiguranje AD in bankruptcy	0.52
Other	8.02
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 31.03.2017

RECEIVABLES

In thousand RSD

Subsidiary	Loans and advances	Interest and fees	Other assets	Net	Off-balance	Total
1. Kom.banka AD Budva	6.829	949	-	7.778	-	7.778
2. Kom.banka AD Banja Luka	159.387	-	356	159.743	371.904	531.647
3. Kombank INVEST	-	206	-	206	200	406
TOTAL	**166.216**	**1.155**	**356**	**167.727**	**372.104**	**539.831**

LIABILITIES

In thousand RSD

Subsidiary	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Budva	395.816	-	1.731	397.547
2. Kom.banka AD Banja Luka	163.731	-	-	163.731
3. Kombank INVEST	74	-	1	75
TOTAL:	**559.621**	**-**	**1.732**	**561.353**

INCOME AND EXPENSES for period 01.01 – 31.03.2017

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Kom.banka AD Budva	23	796	-	(274)	545
2. Kom.banka AD Banja Luka	1.043	433	-	(263)	1.213
3. Kombank INVEST	-	481	(99)	-	382
TOTAL:	**1.066**	**1.710**	**(99)**	**(537)**	**2.140**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gain amounting to RSD 518 thousand

4. B. Balance as of 31.12.2016

RECEIVABLES

In thousand RSD

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

LIABILITIES

In thousand RSD

Subsidiary	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Budva	438.612	-	1.724	440.336
2. Kom.banka AD Banja Luka	139.615	-	-	139.615
3. Kombank INVEST	145.354	1	2	145.357
TOTAL:	**723.581**	**1**	**1.726**	**725.308**

INCOME AND EXPENSES for period 01.01- 31.03. 2016

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commiss. expenses	Net income / expenses
1. Kom.banka AD Budva	25	367	-	(777)	(385)
2. Kom.banka AD Banja Luka	1.414	518	-	(71)	1.861
3. Kombank INVEST	-	224	(2)	-	222
TOTAL:	**1.439**	**1.109**	**(2)**	**(848)**	**1.698**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 7,770 thousand.

5. RISK MANAGEMENT

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

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

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

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

The Bank implements Basel II standards and permanently monitors all the announcement and amendments to the effective regulations, analyses the risk levels and undertakes measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Bank. Through the clearly defined process of introducing new products, the Bank analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Bank's financial result.

Risk Management System

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

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

Risk Management Strategy sets out:

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

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

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

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

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

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

Policies for managing certain risk types define the following:

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

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

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

Competencies

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

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

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

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

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

The Collections Committee is authorized and responsible for managing risk weighted placements; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors through its limits of authorization.

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

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

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

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

Risk Management Process

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

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

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

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

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

Risk Types

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

5.1. Credit Risk

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

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

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

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

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

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

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

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

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

The basic principles of credit risk management are as follows:

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

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

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

Identification of problematic and restructured claims

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

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

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

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

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred.

The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (reduction of interest rates, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. In addition, receivables that are classified in the category of restructured debts are those for which:

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

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

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

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

Downgrade Risk

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

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

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

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

Risk of Change in Value of Assets

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

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

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

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

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

Individual Assessment

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

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

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

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

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

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

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the

assessment of the expected inflow from placement, which are primarily related to the documentation on planned future cash flows of the debtor.

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

Group Assessment

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

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

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

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

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

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

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

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that the Bank uses, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of credit risk. As a standard collaterals Bank accepts contractual authorizations and bills from clients, while as an additional instrument, depending on the assessment of credit risk, and the types of loans, following instruments can be agreed:

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

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

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

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

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

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

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

5.1.1. Maximum Credit Risk Exposure

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

Maximum Credit Risk Exposure before Collateral or any Other Improvements

	31.03.2017		31.12.2016	
	Gross	Net	Gross	Net
I. Assets	**422,906,777**	**381,990,131**	**442,110,850**	**400,017,469**
Cash and cash funds held with the central bank	53,698,437	53,698,437	55,153,209	55,153,209
Loans and receivables due from banks and other financial institutions	31,734,014	31,426,801	40,911,287	40,601,413
Loans and receivables due from customers	174,392,478	146,039,562	180,056,414	150,411,409
Financial assets	133,976,516	133,813,842	136,532,653	136,366,773
Other assets	8,099,042	5,457,822	8,901,845	6,252,855
Non-montary assets	21,006,290	11,553,667	20,555,442	11,231,810
II. Off-balance sheet items	**35,790,367**	**35,376,221**	**31,819,175**	**31,388,234**
Payment guarantees	3,488,220	3,423,935	3,635,706	3,572,933
Performance bonds	5,355,363	5,342,275	6,728,901	6,695,266
Irrevocable commitments	26,421,357	26,367,829	20,862,103	20,811,873
Other items	525,427	242,182	592,465	308,162
Total (I+II)	**458,697,144**	**417,366,353**	**473,930,025**	**431,405,703**

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

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

In thousand RSD

31.03.2017	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Group impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	37,727,806	1,433,795	**39,161,601**	163,937	797,091	**961,028**	38,200,573
Cash Loans	-	-	20,171,070	739,087	**20,910,157**	268,710	739,087	**1,007,797**	19,902,360
Agricultural Loans	-	-	6,550,034	408,265	**6,958,299**	91,097	356,085	**447,182**	6,511,117
Other Loans	-	-	5,214,432	659,845	**5,874,277**	75,464	659,845	**735,309**	5,138,968
Micro Business			7,155,850	679,115	**7,834,965**	128,451	293,679	**422,130**	7,412,834
Total Retail	**-**	**-**	**76,819,192**	**3,920,107**	**80,739,299**	**727,659**	**2,845,787**	**3,573,446**	**77,165,853**
Large corporate clients	-	-	32,472,333	22,713,408	**55,185,741**	1,558,414	18,466,586	**20,025,000**	35,160,742
Middle corporate clients	-	-	13,482,751	2,269,402	**15,752,152**	163,644	1,475,999	**1,639,643**	14,112,509
Small corporate clients	-	-	5,652,654	1,483,863	**7,136,517**	111,761	703,439	**815,201**	6,321,316
State owned clients	746,334	-	7,358,642	1,983,309	**10,088,285**	61,636	630,655	**692,291**	9,395,994
Other	-	-	3,882,748	1,607,736	**5,490,484**	(400)	1,607,736	**1,607,336**	3,883,148
Total Corporate	**746,334**	**-**	**62,849,128**	**30,057,717**	**93,653,179**	**1,895,055**	**22,884,415**	**24,779,470**	**68,873,709**
Total	**746,334**	**-**	**139,668,320**	**33,977,824**	**174,392,478**	**2,622,714**	**25,730,202**	**28,352,916**	**146,039,562**
Due from banks	**31,426,801**	**-**	**-**	**307,213**	**31,734,014**	**-**	**307,213**	**307,213**	**31,426,801**

In thousand RSD

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

Impaired Loans and Receivables

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

Receivables Matured but not Impaired

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

Receivables not Matured and not Impaired

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

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

5.1.2. Non-performing receivables

31.03.2017

	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**80,739,299**	**3,573,446**	**4,687,203**	**943,992**	**3,130,972**	**5,81%**	**2,664,989**
Housing Loans	39,161,601	961,028	1,881,695	467,881	894,197	4,80%	1,530,919
Cash Loans	20,910,157	1,007,797	937,909	38,446	861,250	4,49%	162,838
Agricultural Loans	6,958,299	447,182	484,098	37,009	392,640	6,96%	287,096
Other	5,874,277	735,309	670,700	130	659,889	11,42%	17,605
Micro Businesses	7,834,965	422,130	712,801	400,525	322,996	9,10%	666,531
Corporate	**93,653,179**	**24,779,470**	**31,769,250**	**25,484,331**	**24,298,402**	**33,92%**	**24,819,254**
Agriculture	6,470,463	209,635	265,278	41,966	159,801	4,10%	197,190
Manufacturing Industry	31,314,782	9,354,876	13,622,109	11,843,229	9,215,189	43,50%	13,403,102
Electric Energy	75,631	38,771	0	0	0	0,00%	0
Construction	3,525,956	1,342,994	1,355,106	1,128,846	1,281,181	38,43%	1,307,366
Wholesale and Retail	25,556,834	4,175,486	4,986,820	4,040,021	4,056,664	19,51%	4,312,594
Service Activities	10,358,806	2,514,193	2,892,796	2,889,777	2,467,881	27,93%	2,259,489
Real Estate Activities	1,681,343	669,869	1,387,045	960,622	665,709	82,50%	1,305,788
Other	14,669,365	6,473,646	7,260,097	4,579,870	6,451,977	49,49%	2,033,725
Total	**174,392,478**	**28,352,916**	**36,456,453**	**26,428,323**	**27,429,374**	**20,90%**	**27,484,243**
Due from banks	**31,734,014**	**307,213**	**307,213**	**-**	**307,213**	**0,97%**	**-**

31.12.2016

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

5.1.3. Non problematic receivables

	31.03.2017					31.12.2016				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals
Housing Loans	36,754,120	289,392	236,393	37,279,906	36,395,640	36,697,560	568,687	5,520	37,271,767	36,280,871
Cash Loans	19,869,066	100,685	2,498	19,972,248	14,981,649	18,905,257	61,140	1,635	18,968,032	13,486,892
Agricultural Loans	6,442,608	28,965	2,628	6,474,202	5,888,720	6,054,901	24,463	2,586	6,081,950	5,549,102
Other Loans	5,166,830	33,470	3,277	5,203,577	165,581	5,194,917	40,824	4,046	5,239,787	160,510
Micro Businesses	6,645,429	394,220	82,515	7,122,164	8,241,465	6,095,662	288,095	192,331	6,576,088	7,684,003
Retail	**74,878,053**	**846,732**	**327,311**	**76,052,096**	**65,673,055**	**72,948,297**	**983,209**	**206,119**	**74,137,624**	**63,161,378**
Large corporate clients	27,222,477	3,769,210	0	30,991,688	40,158,611	28,720,712	4,027,940	-	32,748,652	40,339,321
Middle corporate clients	13,271,784	188,561	0	13,460,345	19,598,675	16,034,901	358,702	-	16,393,603	22,435,244
Small corporate clients	5,213,385	418,452	27,623	5,659,460	7,728,655	6,190,681	431,993	30,119	6,652,793	9,185,646
State owned clients	6,205,139	501,040	1,184,160	7,890,339	5,709,518	6,638,454	500,825	1,308,275	8,447,554	6,226,630
Other	1,851	3,879,824	423	3,882,098	4,748,388	216	4,027,641	421	4,028,278	4,872,186
Corporate Clients	**51,914,636**	**8,757,087**	**1,212,206**	**61,883,929**	**77,943,846**	**57,584,964**	**9,347,101**	**1,338,815**	**68,270,880**	**83,059,027**
Total	**126,792,689**	**9,603,819**	**1,539,517**	**137,936,025**	**143,616,901**	**130,533,261**	**10,330,310**	**1,544,934**	**142,408,504**	**146,220,405**
Due from banks	**31,426,801**	**-**	**-**	**31,426,801**	**379,022**	**40,601,413**	**-**	**-**	**40,601,413**	**223,425**

5.1.4. Restructured receivables

Measures implemented by the Bank during the restructuring of loans

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

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

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

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

5.1.5. Concentration Risk

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

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

5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

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

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	31.03.2017.	**31.12.2016.**	**31.03.2017.**	**31.12.2016.**
As at	2.98	2.86	2.58	2.54
Average for the period	3.05	3.00	2.59	2.59
Maximum for the period	3.27	3.62	2.71	3.16
Minimum for the period	2.86	1.88	2.41	1.67

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	**31.03.2017.**	**31.12.2016.**
GAP up to 1 month / Total assets	Max (10%)	3.68%	7.00%
Cumulative GAP up to 3 months / Total assets	Max (20%)	7.89%	10.02%

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

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

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

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

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

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

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

5.3. Market Risk

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

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

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

5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

	Limits	31.03.2017.	31.12.2016.
Relative GAP	Max 15%	2.60%	1.33%
Mismatch ratio	0.75 – 1.25	1.03	1.02

During the first quartet 2017, interest rate risk ratios were within internally prescribed limits.

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

Compliance with internally defined limits of economic value of equity:

	31.03.2017.	31.12.2016.
As at	3.03%	4.61%
Average for the period	3.25%	4.58%
Maximum for the period	3.47%	5.03%
Minimum for the period	3.03%	3.96%
Limit	20%	20%

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

Overview of the total currency risk balance and legally defined currency risk ratio at March 31:

	31.03.2017.	**31.12.2016.**
Total currency risk balance	2,528,681	1,366,855
Currency risk ratio	5.52%	2.96%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting s The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

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

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

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

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

5.8. Capital Management

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

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel II Standards.

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

- Maintain the minimum regulatory capital requirement (EUR 10 million);
- Comply with the prescribed capital adequacy ratio (minimum 12%);
- Maintain customer trust in the safety and stability of the Bank's operations;
- Realize business and financial plans;
- Support the expected growth of loans and receivables due from customers;
- Ensure optimum future sources of funds and deployment thereof;
- Realize of the dividend policy.

The Bank's regulatory capital represents the sum of the core capital and supplementary capital, reduced for deductible items. The capital adequacy ratio represents the Bank's capital relative to the sum of credit risk-weighted assets, foreign currency gap and operational risk exposure. Credit risk-weighted assets are determined according to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio

In thousand RSD

	31.03.2017.	**31.12.2016.**
Core capital	44,318,356	44,667,035
Supplementary capital	4,109,789	4,175,529
Deductible items	(2,611,859)	(2,611,859)
Capital	**45,816,285**	**46,230,705**
Credit risk-weighted assets	147,681,803	147,355,392
Operational risk exposure	21,440,425	21,710,322
Foreign currency risk exposure	2,528,683	2,338,631
Capital adequacy ratio (minimum 12%)	**26.69%**	**26.97%**

During the first quarter of 2017, the Bank's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

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

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

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

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

a) On 27.04.2017 the regular General Meeting of Bank's Shareholders was held, at which the following decisions were adopted:
   - Decision on Adoption of the Annual Performance Report and Regular Financial Statements with the opinion of the external auditor for the year 2016
   - Decision on Allocation of Part of the Retained Earnings from Previous Years to Dividends for Preferred Shares,
   - Decision on Covering the Bank's Loss from 2016
   - Decision on Adoption of the Annual Performance Report and Consolidated Financial Statements of Komercijalna banka a.d. Beograd Group, with the opinion of the external auditor for the year 2016
   - Decision on Adoption of Strategy and Business Plan of the Bank for Period 2017 – 2019.

b) On 11.04.2017 the bankruptcy was declared of the client Žitko a.d., Bačka Topola. For the amount of balance sheet receivables, those being RSD 943,264 thousand, the Bank has already, in previous period, made the impairment provision in full amount.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 31 March 2017 and 31 December 2016 for certain main currencies are as follows:

Currencies	Official NBS rate	
	2017	2016
USD	116.1292	117.1353
EUR	123.9679	123.4723
CHF	115.9879	114.8473

In Belgrade,
on 25.04.2017.

Persons responsible for drafting the
financial statements

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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2017 to 31/03/2017 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by January 1, 2009, which were translated and published in the Official Gazette, in October 2010, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

Snežana Pejčić	Savo Petrović
Director of the Accounting Division	Executive Director for Finance and Accounting