KOMERCIJALNA BANKA

Meni najbliža

REPORT

ON BANK'S OPERATIONS FOR THE FIRST QUARTER OF THE YEAR 2016

BELGRADE, MAY 2016

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REPORT ON BANK'S OPERATIONS FOR THE FIRST QUARTER OF THE YEAR 2016

1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 01.01.2016 TO 31.03.2016

1.1. Bank's Performance Indicators

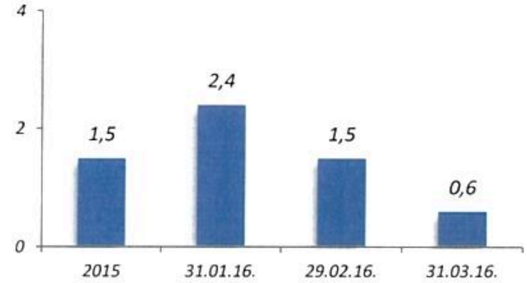
ITEM	31.03.16	29.02.16	31.01.16	2015	2014
BALANCE SHEET (000 RSD)					
Balance Sheet Assets	409.645.236	398.545.686	395.672.581	391.856.849	406.261.524
Off-Balance Sheet Operations	577.265.398	582.421.028	576.001.562	580.407.210	373.803.974
RETAIL					
Loans [1]	72.609.866	71.758.465	71.350.367	70.784.957	69.039.387
Deposits[2]	221.189.992	222.424.837	220.635.778	218.836.847	207.430.548
CORPORATE					
Loans	87.231.841	87.372.076	88.103.154	89.204.275	112.768.251
Deposits	59.208.664	57.242.151	56.143.647	55.503.896	57.437.462
ITEM	31.03.16	29.02.16	31.01.16	2015	2014
INCOME STATEMENT (000 RSD)					
Profit/Loss before tax	1.403.008	941.611	517.876	-6.414.158	4.757.589
Net interest income	3.380.331	2.219.979	1.109.743	13.529.809	13.298.586
Net fee income	1.164.325	720.305	350.202	4.899.947	4.717.757
PROFITABILITY INDICATORS					
ROA	1,40	1,42	1,58	-1,62	1,25
ROE – on share capital	14,02	14,11	15,52	-16,02	11,88
ROE – on total capital	8,99	9,08	10,07	-9,35	7,05
Net interest margin on total assets	3,37	3,35	3,38	3,42	3,49
Cost / income ratio	58,18	58,99	58,42	58,60	59,65
Operating expenses (000 RSD)[3]	2.644.003	1.734.489	852.890	10.799.510	10.745.910
Net expenses from indirect write-offs of loans and provisions (000 RSD)	492.099	234.242	64.875	13.008.527	2.725.389
FX risk ratio	8,10	5,86	3,13	10,60	2,90%
Liquidity ratio	3,32	3,46	2,83	2,73	2,84
Operating cash flow	2.691.591	1.793.832	311.995	7.819.613	7.121.339
ITEM	31.03.16	29.02.16	31.01.16	2015	2014
LOANS/DEPOSITS RATIO					
Gross loans/deposits	66,88	66,04	64,22	67,43	72,45
Net loans/deposits	56,68	55,86	54,33	57,19	66,33
CAPITAL (000 RSD)	62.786.680	62.460.818	61.985.159	61.456.734	69.546.804
Capital adequacy	22,02	22,44	22,87	22,70	17,67
Number of employees	2.890	2.879	2.883	2.877	2.906
Assets per employee (000 EUR)	1.114	1.121	1.153	1.120	1.156
Assets per employee (000 RSD)	137.243	138.432	141.746	136.203	139.801

1 Loans (retail and corporate)do not include other loans and advances and receivables
2 Item deposits does not include other liabilities and assets received through credit lines
3 Within operating expenses, the costs of salaries, tangible and intangible operating costs are presented

2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD FROM 01.01.2016 TO 31.03.2016

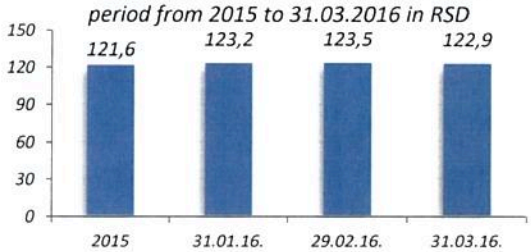
The inflation trend of below the lower limit of target deviation continues in 2016 and at the end of the first quarter it stands at Y-o-Y 0,6%. Low inflation is the result of deflationary pressures that are largely due to low aggregate demand and low imported inflation, which resulted in the recorded inflation well below the allowed deviation from the targeted inflation (4,0±1,5%).

Y-o-Y inflation rate in the period from 2015 to 31.03.2016, in %



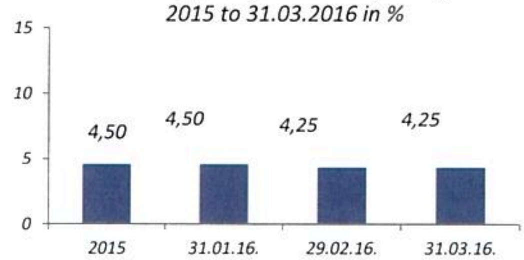
In the first quarter of this year, dinar has slightly depreciated against EUR. Dinar exchange rate is stabilized at the level of about 123 dinars for one euro. During the first quarter of the current year there was a fall in the dinar exchange rate compared to the end of the previous year by 1,1%.

RSD exchange rate against EUR in the period from 2015 to 31.03.2016 in RSD

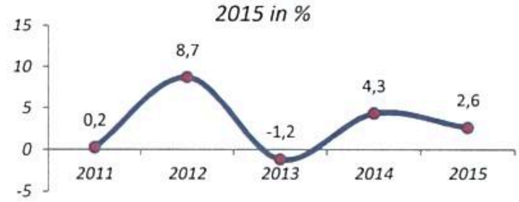


NBS key policy rate was reduced in February 2016 to the level of 4,25%. In terms of coordination of monetary and fiscal policy, owing to low inflationary pressures, fiscal consolidation and implemented structural reforms and the concluded arrangement with the IMF the room was created for further easing of monetary policy and thus the key policy rate in this year has been reduced by 25 basis points. The decline in reference interest rate was accompanied by a significant drop in interest rates in the money and credit market. Decline in interest rates both in domestic and foreign market contributed to the recovery of credit activity in the second half of 2015 and also at the beginning of this year.

NBS key policy rate in the period from 2015 to 31.03.2016 in %

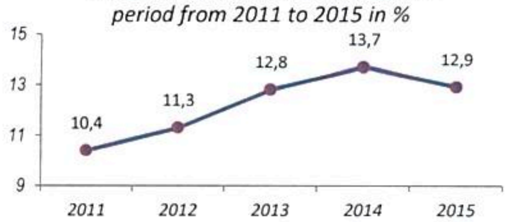


Trend of balance sheet assets of banking sector in the period from 2011 to 2015 in %



The banking sector in the Republic of Serbia recorded a growth of balance sheet assets in 2015 (2,6%) and compared to previous year (4,3%) a decrease has been recorded by 1,7 p.p.

Trend of Bank's market share in the period from 2011 to 2015 in %



Due to prior to privatization „cleansing“ of non-performing loans and the increase of coverage of NPLs by impairment provisions to over 70%, the Bank has, in the course of 2015, slightly reduced the share in total balance sheet assets of the banking sector (-0,8 p.p.)

3. BANK'S KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 01.01.2016 TO 31.03.2016

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Deposits	59.208.664	57.242.151	56.143.647	55.503.896	57.437.462

As of 31.03.2016 the balance sheet assets of the Bank amount to RSD 409.645,2 million and are increased by RSD 17.788,4 million, or by 4,5% relative to the end of previous year.

Off-balance sheet assets are decreased by 0,5% in 2016, and at the end of March this year amount to RSD 577.265,4 million.

In the first three months of 2016, the Bank has reduced the borrowing through credit lines in the amount of RSD 610.748,8 million, which is slightly below the result achieved at the end of 2015 (-2,4%). In the same period the Bank achieved the growth of deposits in the amount of RSD 16.516,7 million, or 5,7%. In the structure of the above stated change, retail deposits are increased by RSD 2.353,1 million and corporate deposits in the amount of RSD 14.163,6 million. The above changes also include the effect of depreciation of dinar against the Euro and the Swiss Franc.

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Net interest margin on total assets	3,37	3,35	3,38	3,42	3,49%
Cost / income ratio	58,18	58,99	58,42	58,60	59,65%
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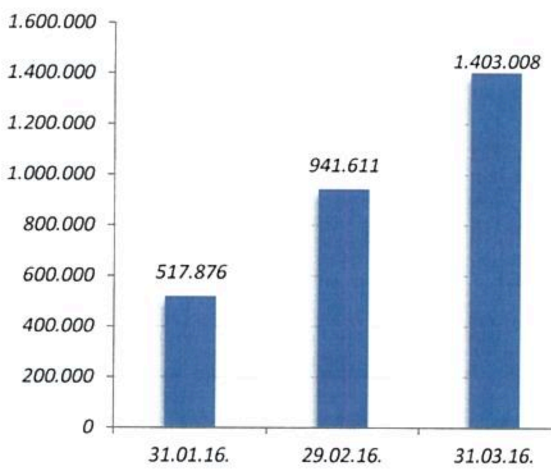
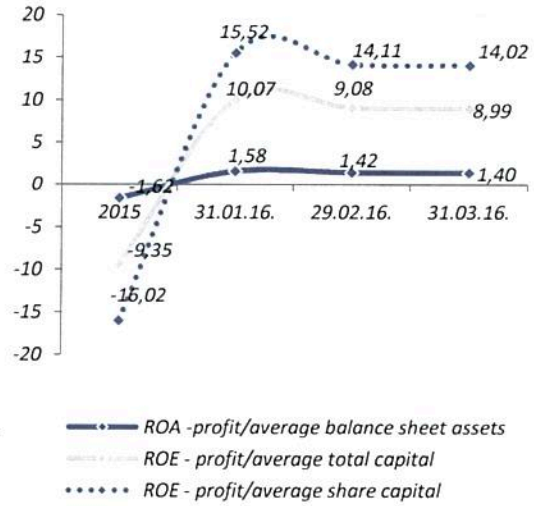
FX risk ratio	8,10	5,86	3,13	10,60	2,90%
Liquidity ratio	3,32	3,46	2,83	2,73	2,84
Operating cash flow	2.691.591	1.793.832	311.995	7.819.613	7.121.339

[4] Within operating expenses, the costs of salaries, tangible and intangible operating costs are presented

Operating profit in 000 RSD



Profitability indicators in %



The implemented „cleansing" of non-performing loans through increase in coverage of NPLs by impairment provisions in previous year, has such an impact that the Bank in the first three months of this year, compared to the same period last year, realized a significantly larger profit (574,7%). The realized profit of the Bank in the period from 01 January to 31 March 2016 amounts to RSD 1.403,0 million, which, in comparison to the same period in previous year, represents an increase of RSD 1.195,1 million. This change in profit provided, in the first three months of 2016, return on total capital of 9,0%, and/or return on share capital of 14,0%.

Movement of profit in the first quarter of 2016, relative to the same period last year, was mainly affected by the reduction in net expenses on account of indirect write-offs of loans and provisions in the amount of RSD 899,4 million, or 64,6% and a decrease in other operating expenses in the amount of RSD 34,0 million, or 32,6%. In respect to positive effects, it is important to emphasize the increase in net fee and commission income in the amount of RSD 20,4 million (1,8%) and in net income arising from financial assets held for trading in the amount of RSD 18,2 million.

Increase in scope of operations also increased the indicator of assets per employee in the Bank. In the first three months of 2016, the assets per employee in the Bank increased from RSD 136,2 million (31.12.2015) to RSD 137,2 million as at 31.03.2016.

At the end of the first quarter of 2016, the Cost income ratio (CIR) stands at 58,18%, whereas at the end of 2015 it equaled 58,60%.

4. BALANCE SHEET AS OF 31.03.2016

4.1. Bank's Assets as at 31.03.2016

(IN 000 RSD)

No.	ITEM	31.03.2016.	31.12.2015.	INDEX
1	2	3	4	5=3/4
1	Cash and cash funds held with Central Bank	62.570.698	63.523.715	98,5
2	Financial assets pledged	-	-	-
3	Financial assets at fair value through profit or loss held for trading	916.685	851.056	107,7
4	Financial assets designated, at the initial recognition, as financial assets at fair value through profit or loss	-	-	-
5	Financial assets available for sale	140.155.509	127.173.383	110,2
6	Financial assets held to maturity	-	-	-
7	Loans and receivables from banks and other financial organizations	23.372.476	16.844.000	138,8
8	Loans and receivables from customers	161.931.292	162.742.565	99,5
9	Change in fair value of hedged items	-	-	-
10	Receivables arising from hedging derivatives	-	-	-
11	Investments in associated companies and joint ventures	-	-	-
12	Investments in subsidiaries	5.480.888	5.480.888	100,0
13	Intangible investments	421.478	216.830	194,4
14	Property, plant and equipment	6.066.137	6.139.572	98,8
15	Investment property	2.730.791	2.744.026	99,5
16	Current tax assets	18.326	37.017	49,5
17	Deferred tax assets	212.833	-	-
18	Non-current assets intended for sale and assets from discontinued operations	69.317	63.314	109,5
19	Other assets	5.698.806	6.040.483	94,3
	TOTAL ASSETS (from 1.to 19.)	409.645.236	391.856.849	104,5

Balance sheet assets of the Bank, at the end of the first quarter 2016, are increased by RSD 17.788,4 million, or by 4,5%.
In the structure of increased scope of operations, the prevailing is an increase of financial assets available for sale, which are increased in the course of the first quarter of 2016 by RSD 12.982,1 million, or 10,2%. Loans and receivables from customers (as per new balance sheet format) are increased by RSD 5.717,2 million, or 3,2%. As at 31.03.2016, the total „loans and receivables from customers and banks" amount to RSD 185.303,8 million, which accounts for 45,2% of total balance sheet assets.

During the first three months of 2016, the item „cash and cash funds held with Central Bank" recorded a decline amounting to RSD 953,0 million, or 1,5%.

4.2. Bank's Liabilities as at 31.03.2016

(IN 000 RSD)

No.	ITEM	31.03.2016.	31.12.2015.	INDEX
1	2	3	4	5=3/4
1	Financial liabilities at fair value through profit or loss held for trading	-	-	-
2	Financial liabilities designated, at the initial recognition, as financial liabilities at fair value through profit or loss	-	-	-
3	Liabilities arising from hedging derivatives	-	-	-
4	Deposits and other liabilities due to banks, other financial organizations and Central Bank	16.277.240	17.159.317	94,9
5	Deposits and other liabilities due to other customers	316.784.279	300.005.903	105,6
6	Change in fair value of hedged items	-	-	-
7	Own securities issued and other borrowings	-	-	-
8	Subordinated liabilities	6.218.343	6.077.962	102,3
9	Provisions	2.132.430	2.109.020	101,1
10	Liabilities arising from assets intended for sale and assets from discontinued operations	-	-	-
11	Current tax liabilities	-	-	-
12	Deferred tax liabilities	340.377	127.545	266,9
13	Other liabilities	5.105.887	4.920.368	103,8
	TOTAL LIABILITIES (from I 1 to I 13)	346.858.556	330.400.115	105,0
	CAPITAL			-
15	Share capital	40.034.550	40.034.550	100,0
16	Own shares	-	-	-
17	Profit	1.582.558	179.550	881,4
18	Loss	6.299.631	6.299.631	100,0
19	Reserves	27.469.203	27.542.265	99,7
20	Unrealized losses	-	-	-
21	Non-controlling interests	-	-	-
22	**TOTAL CAPITAL (from 15 to 21)**	62.786.680	61.456.734	102,2
	TOTAL LIABILITIES (from I 1 to I 21)	409.645.236	391.856.849	104,5

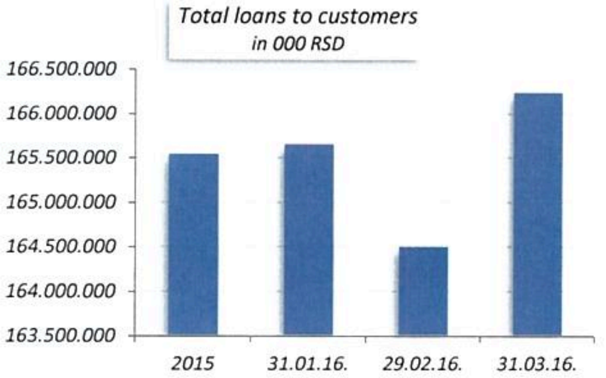
Total liabilities at the end of the first three months of 2016 amount to RSD 346.858,6 million and account for 84,7% of total liabilities (31.12.2015: 84,3%). At the same time, total capital of RSD 62.786,7 million accounts for 15,3% in total liabilities (31.12.2014: 15,7%). Total liabilities have increased in comparison to the end of the previous year by RSD 16.458,4 million, or 5,0%, while the total capital has been increased by RSD 1.329,9 million, or 2,2%.

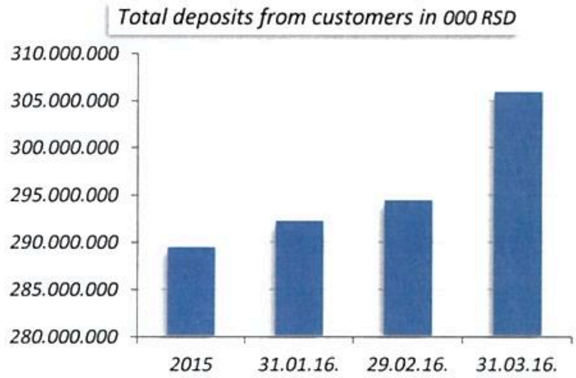
The item „deposits and liabilities due to customers“ has been increased in the reporting period by RSD 16.778,4 million, or 5,6%, while the item „deposits and liabilities to banks“ has been decreased compared to the end of the previous year by RSD 882,1 million, or 5,1%. Item „other liabilities“ increased by RSD 185,5 million, or 3,8%. Subordinated liabilities in the amount of EUR 50,0 million were drawn down at the end of 2011, for the purpose of increasing the regulatory capital.

In the first three months of this year foreign credit lines are decreased in net equivalent of RSD 610.748,8 million, so that the balance of the subject liabilities as of 31.03.2016 totals RSD 24.523,3 million.

In the structure of balance sheet liabilities, total deposits and other liabilities due to banks and customers amount to RSD 333.061,6 million, which accounts for 81,3% of total balance sheet liabilities, thus recording an increase in comparison to the beginning of the year of RSD 15.896,3 million, or 5,0%.

4.3. Loans to customers and Deposits from Customers as at 31.03.2016





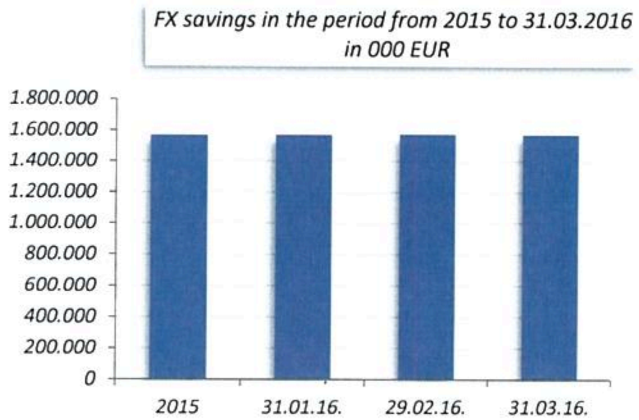
The most important assets category, „loans to customers“ (excluding other loans and receivables), recorded an increase of RSD 699,5 million, or 0,4%). The level of loans granted to customers at the end of the first quarter of 2016 is significantly impacted by retail loans, which at the end of March reached the amount of RSD 72.609,9 million (2,6%), while corporate loans decreased by RSD 1.972,4 million, or 2,2%. Total loans to customers and banks, as at 31.03.2016, amount to RSD 166.241,6 million and are increased in comparison to the end of the previous year by RSD 699,5 million, or 0,4%.

(IN 000 RSD)

No.	ITEM	BALANCE AS AT 31.03.2016.	BALANCE AS AT 31.12.2015.	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1. +2. +3.)	**166.241.561**	**165.542.078**	100,4
1.	Corporate	87.231.841	89.204.275	97,8
2.	Retail	72.609.866	70.784.957	102,6
3.	Banks and financial organizations	6.399.853	5.552.846	115,3
II	DEPOSITS FROM CUSTOMERS (1. +2. +3.)	**305.979.706**	**289.462.989**	105,7
1.	Corporate	59.208.664	55.503.896	106,7
2.	Retail	221.189.992	218.836.847	101,1
3.	Banks and financial organizations	25.581.050	15.122.245	169,2

NOTE: loans to customers and deposits from customers according to previous balance sheet format

Changes in deposits (excluding other liabilities) in the first three months of 2016, came mainly as a result of increase in deposits of banks and financial organizations (RSD 10.458,8 million), increase in corporate deposits (equivalent of RSD 3.704,8 million), and an increase in retail deposits (equivalent of RSD 2.353,1 million). In the last quarter, within the stated changes, the retail FX savings increased by EUR 3,6 million.



Having the reputation of safe and stable bank in the Serbian market, the Bank managed to increase FX savings deposits by EUR 3,6 million, or 0,2%, in the observed period.

Despite still present economic crisis, FX savings increased in the first three months of 2016 and reached the amount of EUR 1.573,4 million.

Savers' trust enabled the Bank to retain its top position in the banking sector of the Republic of Serbia in terms of volume of FX savings, image and recognizability.

4.4. Commission Operations and Off-Balance Sheet Items in 2016

(IN 000 RSD)

No.	ITEM	BALANCE AS AT 31.03.2016.	BALANCE AS AT 31.12.2015.	INDEX
1	2	3	4	5=(3:4)*100
I	**OPERATIONS FOR AND ON BEHALF OF (commission operations)**	**4.445.005**	**4.444.445**	**100,01**
II	**CONTINGENT LIABILITIES**	**28.970.766**	**27.973.028**	**103,57**
1	Payable guarantees	3.840.613	4.702.206	81,68
2	Performance bonds	6.451.850	6.453.308	99,98
3	Undrawn commitments	18.231.686	16.245.267	112,23
4	Other off-balance sheet items that are classified	388.672	518.082	75,02
5	Uncovered letters of credit	57.946	54.165	106,98
III	**UNCLASSIFIABLE OFF-BALANCE SHEET ITEMS**	**543.849.627**	**547.989.736**	**99,24**
1	FX savings bonds	2.779.208	2.774.418	100,17
2	Securities in custody	249.565.492	243.317.598	102,57
3	Other off-balance sheet items	291.504.927	301.897.721	96,56
	TOTAL (I + II + III)	**577.265.398**	**580.407.210**	**99,46**

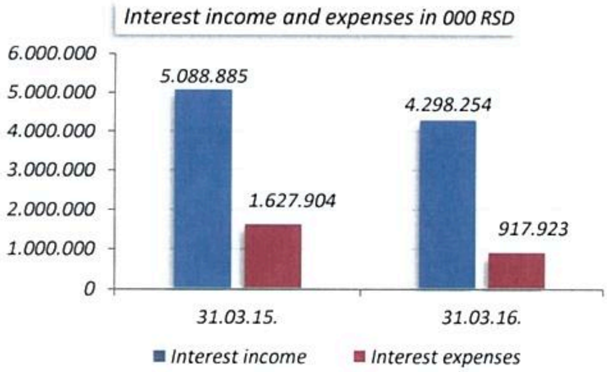
As of 31.03.2016 contingent off-balance sheet liabilities amount to total of RSD 28.970,8 million – increase by RSD 997,7 million, or 3,6% compared to the end of the previous year, mostly due to an increase in „undrawn commitments“ and, to lesser extent, due to „uncovered letters of credit“.

5. INCOME STATEMENT FOR THE PERIOD FROM 01.01.2016 TO 31.03.2016

(IN 000 RSD)

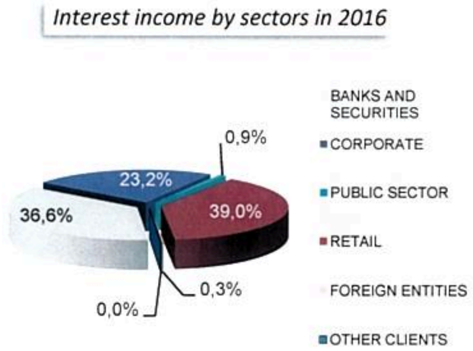
No.	ITEM	31.03.2016.	31.03.2015.	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	4.298.254	5.088.885	84,5
1.2.	Interest expenses	917.923	1.627.904	56,4
1.	**Net interest income/expenses**	3.380.331	3.460.981	97,7
2.1.	Fee and commission income	1.405.936	1.404.876	100,1
2.2.	Fee and commission expenses	241.611	260.976	92,6
2.	**Net fee and commission income/expenses**	1.164.325	1.143.900	101,8
3.	Net gain/loss arising from financial assets held for trading	18.099	-116	-
4.	Net gain/loss arising from risk protection	-	-	
5.	Net gain/loss arising from financial assets designated, at the initial recognition, as financial assets at fair value through profit or loss	-	-	-
6.	Net gain/loss arising from financial assets available for sale	-43.297	-9.927	436,2
7.	Net income/expenses from exchange rate differentials and the effects of the contractual currency clause	-24.405	31.757	-
8.	Net gain/loss arising from investments in associated companies and joint ventures	-	-	-
9.	Other operating income	70.274	104.280	67,4
10.	Net income/expenses arising from impairment of financial assets and credit risk-weighted off-balance sheet items	-492.099	-1.391.544	35,4
11.	**TOTAL NET OPERATING INCOME**	4.073.228	3.339.331	122,0
12.	**TOTAL NET OPERATING EXPENSES**	-	-	-
13.	Cost of salaries, fringe benefits and other personnel expenses	1.052.684	1.003.626	104,9
14.	Depreciation and amortization charge	185.917	206.101	90,2
15.	Other expenses	1.431.619	1.921.672	74,5
16.	**PROFIT BEFORE TAXES**	1.403.008	207.932	674,7
17.	**LOSS BEFORE TAXES**	-	-	-
18.	Profit tax	-	-	-
19.	Gains on increased deferred tax assets and decreased deferred tax liabilities	-	-	-
20.	Loss on decreased deferred tax assets and increased deferred tax liabilities	-	-	-
21.	**PROFIT AFTER TAXES**	1.403.008	207.932	674,7
22.	**LOSS AFTER TAXES**	-	-	-
23.	Net profit from discontinued operations	-	-	-
24.	Net loss from discontinued operations	-	-	-
25.	**RESULT FOR THE PERIOD – PROFIT**	1.403.008	207.932	674,7
26.	**RESULT FOR THE PERIOD - LOSS**	-	-	-
27.	Profit attributable to parent entity	-	-	-
28.	Profit attributable to non-controlling stakeholders	-	-	-
29.	Loss attributable to parent entity	-	-	-
3-.	Loss attributable to non-controlling stakeholders	-	-	-
31.	Earnings per share	-	-	-
32.	Basic earnings per share	-	-	-
33.	Diluted earnings per share	-	-	-

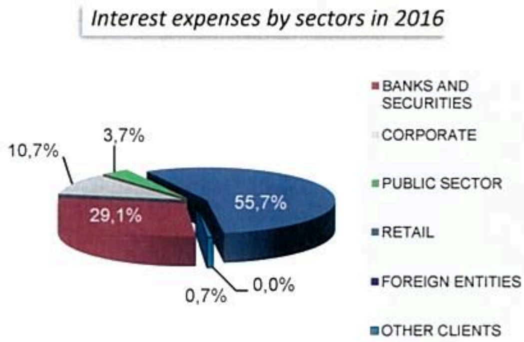
5.1. Interest Income and Expenses



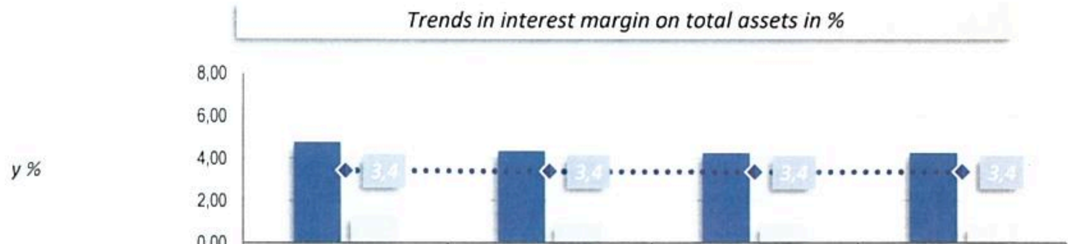
Interest gains amount to RSD 3.380,3 million, which, in comparison to the same period last year, represents a decrease of 2,3%.

Compared to the previous year, interest income decreased by RSD 790,6 million, or by 15,5%, whereas the interest expenses decreased by RSD 710,0 million, or by 43,6%.





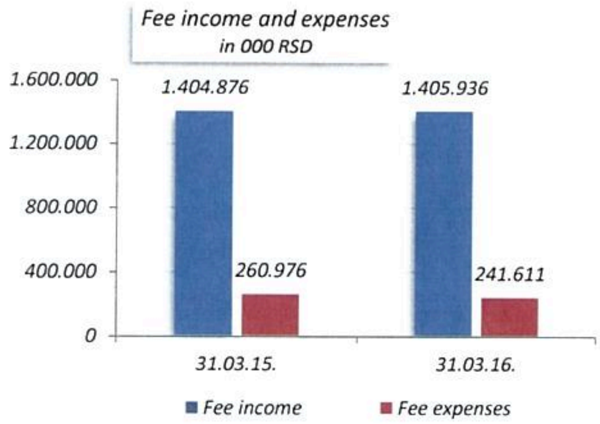
Retail interest income accounts for the largest share of interest income (RSD 1.675,9 million, or 39,0%), while retail deposit interest accounts for the largest share of interest expenses (RSD 511,3 million, or 55,7%), which is mainly a result of interest expenses on deposited FX savings.



	2015	januar	februar	mart
Average lending rate	4,8	4,4	4,3	4,3
Average borrowing rate	1,3	1,0	0,9	0,9
Average interest margin	3,4	3,4	3,4	3,4

Average lending rate at the end of the first quarter of 2016 was 4,3%, while the average borrowing rate was 0,9%. As a result, in the first quarter of 2016, the Bank's average interest margin was 3,4%.

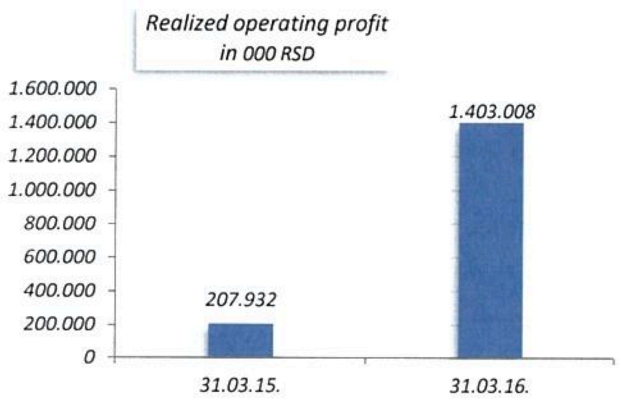
5.2. Fee Income and Expenses



Compared to the same period last year, fee and commission income for banking services are increased by RSD 1,1 million, or by 0,1%, while fee and commission expenses decreased by RSD 19,4 million, or by 7,4%.

In the first three months of 2016, fee and commission gains amounted to RSD 1.164,3 million and were higher than in the same period last year by 1,8%.

5.3. Realized operating profit



Due to „cleansing" of non-performing loans through increasing the coverage of NPLs by impairment provisions, in the last year, the Bank started the year 2016 with significantly higher quality of loan portfolio. In the period from 01 January until 31 March 2016, the Bank achieved the operating profit in the amount of RSD 1.403,0 million, which represents an increase of RSD 1.195,1 million compared to the same period of previous year.

The realized operating profit provided the Bank, in the first three months of 2016, return on total capital of 9,0%, and/or return on share capital of 14,0%.

PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS

No.	ITEM	PRESCRIBED	31.03.2016	2015
1.	CAPITAL ADEQUACY RATIO (NET CAPITAL / CREDIT RISK + OPERATIONAL RISKS + OPEN FX POSITION)	MIN. 12%	22,02	22,70
2.	RATIO OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX. 60%	22,96	23,13
3.	BANK'S LARGE EXPOSURE RATIO	MAX. 400%	65,07	79,76
4.	FX RISK RATIO	MAX. 20%	8,10	10,60
5.	LIQUIDITY RATIO	MIN. 0,8	3,32	2,73

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

A detailed overview of main risks and threats the Bank will be exposed to in the upcoming period is described in chapter Risk Management, Notes to Financial Statements.

7. ALL MAJOR TRANSACTIONS WITH RELATED ENTITIES

As of 31.03.2016 the following entities are related to the Bank:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. Four legal entities (Lasta doo Sombor, Viš trade doo Vršac, Menta doo NIS Beograd, GP Company doo Kraljevo) and a number of natural persons, according to the provisions of the Article 2 of the Law on Banks in the part which defines the term "entities related to the bank".

Total exposure to entities related to the Bank as of 31.03.2016 amounted to RSD 675.840,4 thousand, which accounts for 1,76% of the capital of RSD 38.319.538 thousand (maximum amount of total lending to all the entities related to the Bank is set by the Law on Banks at 25% of capital).

Loans to natural persons related to the Bank account for the largest portion of the Bank's exposure to related entities as of 31.03.2016 – the amount of RSD 490.859,70 thousand, or 1,28% of the Bank's capital.

In accordance with Article 37 of the Law on Banks, the Bank did not grant its related entities any loans under conditions that are more favorable than those which apply to other entities that are not related to the Bank.

More detailed account of the relationship of the Bank with related entities is presented in Item-Related Entities, Notes to Financial Statements.

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

After the end of the first quarter of 2016, of the major business events we highlight the convening of the regular General Meeting of Shareholders of Komercijalna banka AD Beograd for 24.05.2016, with the following agenda:

1. Decision on Adoption of the Strategy and Business Plan of the Bank for the period 2016-2018
2. Decision on Release from Duty and Appointment of a Member of the Bank's Board of Directors
3. Annual Report on Bank's Operations and Financial Statements of Komercijalna banka AD Beograd for the year 2015:
   a) Decision on Adoption of the Annual Report on Bank's Operations for 2015, with the opinion of the external auditor
   b) Decision on Adoption of Regular Financial Statements of the Bank for 2015, with the opinion of the external auditor
   c) Decision on Allocation of Retained Earnings from Previous Years to Dividends on Preferred Shares
   d) Decision on Covering the Loss from 2015
4. Decision on Adoption of the Annual Report on Group's Operations and Regular Consolidated Financial Statements of Komercijalna banka AD Beograd Group for the year 2015, with the opinion of the external auditor.

During the month of April this year, the EBRD credit line was early repaid in the amount of EUR 17,1 million, and at the same time the credit line amounting to EUR 30 million for SMEs was drawn, at more favorable terms and conditions in comparison to repaid funds, in accordance with the agreement signed in March this year.

Description of events after the balance sheet date is presented in Item 6, Notes to Financial Statements for the first quarter of 2016.

9. KEY DATA ON IMPLEMENTATION OF BUSINESS PLAN FOR THE YEAR 2016

The implementation of Strategy and Business Plan, in the first three months of 2016, was conducted within the following macroeconomic business conditions, of which we particularly emphasize:

-GDP growth of 3,5% in the first quarter of 2016, in comparison to the same period last year (RBS, estimate), the plan for the whole year is a growth of 1,8% (MF RS),

-stable dinar exchange rate movements around the level of 123 dinars for 1 euro (dinar exchange rate against euro - planned at the end of the current year: 1 euro = 122,50 dinars (KB), and as at 31.03.2016 the actual rate is: 1 euro = 122,92 dinars),

-inflation rate (Y-o-Y rate, March 2016/March 2015: +0,6%) has downward trend and is currently below the lower limit of the target rate for March this year (4,0+/-1,5%) and 0,5 pp. above the historical low from January 2015 (0,1% Y-o-Y).

In 2016 the growth of GDP is expected primarily due to easing of monetary policy, enhancement in business environment, initiated structural adjustment, structural reforms, recovery of external demand and investment growth. Positive impetus to banking operations in the first three months of 2016 came from release of a part of credit potential, which occurred by reducing the rate of allocation of foreign currency required reserve by 6 pp. (September 2015 – February 2016). The current trends indicate that the country's macroeconomic perspective improved, which leads to more intensive recovery of economic activity. Foreign direct investments also show the positive tendencies; in 2015 these investments were higher than the current deficit and the projection for this year anticipates full coverage of current deficit by foreign direct investments. Continued positive trends of recovery of credit activity of the banking sector extended in this year, as well. In February this year the growth rate of domestic loans at the sector level was about 0,6% with positive share of retail loans. In 2016 further recovery of credit activity is expected, especially due to increasing competition and increase in demand for bank loans.

9.1. Planned and Realized Values of Balance Sheet for Q1 2016

Total balance sheet assets of the Bank, at the end of the first quarter of 2016, amounted to RSD 409.645,2 million and compared to planned value for the same period is higher by RSD 12.477,8 million, or by 3,1%. Considerable positive differences between the realized and planned values are recorded with respect to item „securities"-realized value is higher by RSD 10.443,2 million, or +8,0%, „loans to banks and other financial organizations"– realized value is higher by RSD 6.691,7 million or by 40,1% than the planned value, „cash and cash equivalents"– realized value is higher than the planned value by RSD 3.073,5 million, or by 5,2%.
A decrease in realized value compared to the planned one has been recorded especially in item „loans to customers", the reduction of RSD 7.457,7 million (-4,4%).

In the structure of balance sheet liabilities the positive deviation from the planned values has been recorded in item deposits (RSD 14.207,4 million, according to previous balance sheet format), which was mainly due to growth of deposits from banks and other financial organizations (RSD 20.115,5 million), growth of other liabilities (RSD 1.206,3 million), while the negative deviation was recorded in item „deposits and other liabilities due to customers" – reduction in the amount of RSD 5.908,1 million.

Trend in RSD exchange rate - depreciation (1,1% against EUR), increased to a certain extent the differences between the realized and planned values.

Realized and planned values of items from assets and liabilities in the balance sheet, as of 31.03.2016:

(IN 000 RSD)

No.	ITEM	Planned 31.12.2016.	Realized 31.03.2016.	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	59.497.150	62.570.698	105,2
2.	Securities	130.629.026	141.072.194	108,0
3.	**Loans and deposits to customers (3.1.+ 3.2.+ 3.3.)**	**171.636.933**	**166.241.561**	96,9
3.1.	Corporate	92.051.990	87.231.841	94,8
3.2.	Retail	74.352.000	72.609.866	97,7
3.3.	Banks and financial organizations	5.232.943	6.399.853	122,3
4.	Other assets	35.404.332	39.760.782	112,3
5.	**TOTAL ASSETS (1.+ 2.+ 3.+ 4.)**	**397.167.441**	**409.645.236**	103,1
	LIABILITIES			
1.	**Deposits**	**295.162.125**	**305.979.706**	103,7
1.1.	Corporate	63.404.318	59.208.664	93,4
1.2.	Retail	222.859.000	221.189.992	99,3
1.3.	Banks and financial organizations	8.898.808	25.581.050	287,5
2.	**Other liabilities**	36.135.877	40.878.849	113,1
3.	**Total liabilities (1.+ 2.)**	**331.298.003**	**346.858.555**	104,7
4.	**Total capital**	**65.869.439**	**62.786.680**	95,3
5.	**TOTAL LIABILITIES (3 + 4.)**	**397.167.441**	**409.645.236**	103,1

9.2. Planned and Realized Values of Income Statement for the Period 01.01.-31.03.2016

(IN 000 RSD)

No.	ITEM	Plan 01.01.-31.03.2016.	Realized 01.01.-31.03.2016.	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	4.257.703	4.298.254	101,0
1.2.	Interest expenses	897.974	917.923	102,2
1.	**Interest gains (1.1.-1.2.)**	**3.359.728**	**3.380.331**	100,6
2.1.	Fee and commission income	1.696.712	1.405.936	82,9
2.2.	Fee and commission expenses	309.500	241.611	78,1
2.	**Fee and commission gains (2.1. - 2.2.)**	**1.387.212**	**1.164.325**	83,9
3.	Net foreign exchange gains/losses and valuation adjustment (FX clause)	25.000	-24.405	
4.	Net other operating income/expenses	149.500	18.858	12,6
5.	Net expenses/income from indirect write offs of loans and provisions	-954.000	-492.099	51,6
6.	Operating expenses	2.678.500	2.644.003	98,7
7.	**OPERATING PROFIT**	**1.288.940**	**1.403.008**	108,8

Among the income statement items, significant deviation was recorded in net expenses from indirect write-offs of loans (the realized value is lower than the planned one by RSD 461,9 million), fee and commission gains (the realized value is lower than the planned one by RSD 222,9 million). Operating expenses in the same period were lower than planned by RSD 34,5 million as a result of the rationalization of operating costs. Due to reduction in net expenses arising from indirect write-off of loans and provisions for off-balance sheet items, and also on account of reduction in other operating expenses in the first quarter of 2016, the Bank generated the profit before tax in the amount of RSD 1.403,0 million, which makes for 8,8% above the value planned for the period from January 01st to March 31st, 2016.

Signed on behalf Komercijalna banka a.d. Beograd:

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД 4

BALANCE SHEET

on 31.03.2016.

(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	62.570.698	63.523.715
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	916.685	851.056
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	140.155.509	127.173.383
Financial assets held to maturity	0006	-	-
Loans and advances to banks and other financial institutions	0007	23.372.476	16.844.000
Loans and advances to clients	0008	161.931.292	162.742.565
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	5.480.888	5.480.888
Intangible assets	0013	421.478	216.830
Property, plant and equipment	0014	6.066.137	6.139.572
Investment property	0015	2.730.791	2.744.026
Current tax assets	0016	18.326	37.017
Deferred tax assets	0017	212.833	-
Non-current assets held for sale and assets of discontinued operations	0018	69.317	63.314
Other assets	0019	5.698.806	6.040.483
TOTAL ASSETS (from 0001 to 0019)	0020	409.645.236	391.856.849
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	16.277.240	17.159.317
Deposits and other liabilities to other clients	0405	316.784.279	300.005.903
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.218.343	6.077.962
Provisions	0409	2.132.430	2.109.020
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	340.377	127.545
Other liabilities	0413	5.105.887	4.920.368
TOTAL LIABILITIES (from 0401 to 0413)	0414	346.858.556	330.400.115
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	1.582.558	179.550
Loss	0418	6.299.631	6.299.631
Reserves	0419	27.469.203	27.542.265
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	62.786.680	61.456.734
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	409.645.236	391.856.849

INCOME STATEMENT

from 01.01.2016. to 31.03.2016.

(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	4.298.254	4.298.254	5.088.885	5.088.885
Interest expenses	1002	917.923	917.923	1.627.904	1.627.904
Net interest profit (1001-1002)	1003	3.380.331	3.380.331	3.460.981	3.460.981
Net interest loss (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1.405.936	1.405.936	1.404.876	1.404.876
Fee and commission expenses	1006	241.611	241.611	260.976	260.976
Net fee and commission income (1005 - 1006)	1007	1.164.325	1.164.325	1.143.900	1.143.900
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains on financial assets held for trading	1009	18.099	18.099	-	-
Net loss on financial assets held for trading	1010	-	-	116	116
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	-	-	-	-
Net loss from sale of securities	1016	43.297	43.297	9.927	9.927
Net income from foreign exchange differences and effects of contracted foreign currency clause	1017	-		31.757	31.757
Net foreign exchange losses and the effects of contracted foreign currency clause	1018	24.405	24.405	-	-
Net gains on investments in associates and joint ventures	1019	-	-	-	-
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	70.274	70.274	104.280	104.280
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1022	-	-	-	-
Net impairment losses of financial assets and off-balance sheet credit risk items	1023	492.099	492.099	1.391.544	1.391.544
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	4.073.228	4.073.228	3.339.331	3.339.331
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	1.052.684	1.052.684	1.003.626	1.003.626
Depreciation costs	1027	185.917	185.917	206.101	206.101
Other expenses	1028	1.431.619	1.431.619	1.921.672	1.921.672
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	1.403.008	1.403.008	207.932	207.932
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	1.403.008	1.403.008	207.932	207.932
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	1.403.008	1.403.008	207.932	207.932
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
БЕОГРАД
4

STATEMENT OF OTHER COMPREHENSIVE INCOME

from 01.01.2016. to 31.03.2016.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	1.403.008	1.403.008	207.932	207.932
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	296.422	296.422	466.595	466.595
Unrealized losses arising from securities available for sale	2010	369.484	369.484	128.696	128.696
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	**-**	**-**	**337.899**	**337.899**
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	**73.062**	**73.062**	**-**	**-**
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	**1.329.946**	**1.329.946**	**545.831**	**545.831**
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

CASH FLOW STATEMENT

from 01.01.2016 to 31.03.2016

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2016.	Amount 01.01-31.03.2015.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3001	6.096.141	6.966.099
1.	Inflows from Interest	3002	4.612.386	5.498.058
2.	Inflows from allowances	3003	1.430.147	1.418.375
3.	Inflows from other operating income	3004	44.422	48.717
4.	Inflows from dividends and participation in profit	3005	9.186	949
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3006	3.404.550	4.168.293
5.	Outflows from interest	3007	879.567	1.383.904
6.	Outflows from allowances	3008	242.216	261.431
7.	Outflows from gross salleries, wages and other personnel indemnities	3009	892.117	879.434
8.	Outflows from taxes, contributions and other obligations from income	3010	170.079	178.002
9.	Outflows from other operating expenses	3011	1.220.571	1.465.522
III.	**Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)**	3012	2.691.591	2.797.806
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	18.143.729	21.370.741
10.	Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	1.486.615	15.511.912
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	2.084.492	5.858.829
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		14.886.593
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		14.886.593
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	20.835.320	9.281.954
VIII.	**Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030		1.170
23.	Dividends paid	3031		120
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	20.835.320	9.280.664
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	7.666.798	11.370.221
1.	Inflows from long-term investment in securities	3035	7.666.767	11.368.304
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	31	1.917
4.	Inflow of sale of investment property	3038	-	-
5.	Other inflows from investing activities	3039	-	-
II.	**Cash outflows from investing activities (from 3041 to 3045)**	3040	22.742.398	17.208.438
6.	Outflows from investment in long-term securities	3041	22.424.236	17.132.691
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	318.162	75.747
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	15.075.600	5.838.217
В.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflows from financing activities (from 3049 to 3054)**	3048	29.296.128	21.881.244
1.	Inflows from capital increase	3049	-	-
2.	Cash inflows from subordinated obligations	3050	-	-
3.	Cash inflows from loans received	3051	29.296.128	21.881.244
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	29.725.754	22.236.240
7.	Outflows from purchase of own shares	3056	-	-
8.	Cash outflows from subordinated obligations	3057	-	-
9.	Cash outflows from loans received	3058	29.725.754	22.236.240
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	429.626	354.996
Г.	**TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	61.202.796	61.588.305
Д.	**TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	55.872.702	58.500.854
Ђ.	**NET INCREASE IN CASH (3063 - 3064)**	3065	5.330.094	3.087.451
Е.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	-
Ж.	**CASH AT THE BEGINNING OF THE YEAR**	3067	36.227.664	45.160.177
З.	**PROFIT ON EXCHANGE**	3068	65.457	98.703
И.	**LOSS ON EXCHANGE**	3069		-
Ј.	**CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	41.623.21[illegible]	48.346.331

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

БЕОГРАД

STATEMENT OF CHANGES IN EQUITY

from 01.01.2016 to 31.03.2016

(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	20.635.440	4113	2.351.085	4127	230.126	4141	6.755.855	4175		4209	69.546.804	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	20.635.440	4116	2.351.085	4130	230.126	4144	6.755.855	4178		4210	69.546.804	4216	
Total positive other result for the period									4117	483.684	4131	2.182								
Total negative other result for the period									4118		4132									
Profit for the year													4145							
Loss for the year															4179	6.299.631				
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	4.300.000					4150		4184					
Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092						4151	4.300.000	4185					
Dividend payments	4009		4037		4065		4093						4152	1.962.751	4186					
Other – increase	4010		4038		4066		4094						4153	33.446	4187					
Other – decrease	4011		4039		4067		4095						4154	347.000	4188					
Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0	4012		4040		4068		4096	4.300.000					4155		4189					
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013		4041		4069		4097						4156	6.576.305	4190					
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		4070	22.843.084	4098	24.935.440	4119	2.834.769	4133	227.944	4157	179.550	4191	6.299.631	4211	61.456.734	4217	
Opening balance as of January 1st of the current year	4015	17.191.466	4043		4071	22.843.084	4099	24.935.440	4120	2.834.769	4134	227.944	4158	179.550	4192	6.299.631	4212	61.456.734	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		4074	22.843.084	4102	24.935.440	4123	2.834.769	4137	227.944	4161	179.550	4195	6.299.631	4213	61.456.734	4219	
Total positive other result for the period									4124	296.422	4138									
Total negative other result for the period									4125		4139	369.484								
Profit for the year													4162	1.403.008						
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		4054		4082		4110						4172		4206					
Total transactions with owners (number 31-32+33-34-35+36- 37) < 0	4027		4055		4083		4111						4173		4207					
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		4084	22.843.084	4112	24.935.440	4126	3.131.191	4140	597.428	4174	1.582.558	4208	6.299.631	4214	62.786.680	4220	

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД *

KOMERCIJALNA BANKA
AD Beograd

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2016

Belgrade, May 2016

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 31.03.2016, 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 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 2016 the Bank is consisted of the Head Office in Belgrade located at 14, Svetog Save Street, 24 branches and 207 sub-branches.

As of 31 March 2016 the Bank had 2,890 employees, and on December 31st, 2015 the number of employees was 2,877. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

The Bank keeps records 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, 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 periodical financial statements for January – March 2016 period, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for the year 2015.

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). 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 2016, with comparative data for 2015, 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

	31.03.2016.		31.12.2015.	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	62,570,698	15.27	63,523,715	16.21
Financial assets at fair value through profit and loss, held for trading	916,685	0.22	851,056	0.22
Financial assets available for sale	140,155,509	34.21	127,173,383	32.45
Financial assets held to maturity	-	-	-	-
Loans and receivables due from banks and other financial institutions	23,372,476	5.71	16,844,000	4.30
Loans and receivables from customers	161,931,292	39.53	162,742,565	41.53
Investment in subsidiaries	5,480,888	1.34	5,480,888	1.40
Intangible assets	421,478	0.10	216,830	0.06
Property, plant and equipment	6,066,137	1.48	6,139,572	1.57
Investment property	2,730,791	0.67	2,744,026	0.70
Current tax assets	18,326	0.01	37,017	0.01
Deferred tax assets	212,833	0.05	-	-
Non-current assets held for sale and assets from discontinued operations	69,317	0.02	63,314	0.02
Other assets	5,698,806	1.39	6,040,483	1.54
TOTAL ASSETS	**409,645,236**	**100.00**	**391,856,849**	**100.00**

In thousand RSD

LIABILITIES	31.03.2016 Amount	%	31.12.2015 Amount	%
Deposits and other liabilities due to banks, other financial organizations and the central bank	16,277,240	3.97	17,159,317	4.38
Deposits and other liabilities due to other customers	316,784,279	77.33	300,005,903	76.56
Subordinated liabilities	6,218,343	1.52	6,077,962	1.55
Provisions	2,132,430	0.52	2,109,020	0.54
Deferred tax liabilities	340,377	0.08	127,545	0.03
Other liabilities	5,105,887	1.25	4,920,368	1.26
Equity	62,786,680	15.33	61,456,734	15.68
TOTAL LIABILITIES	**409,645,236**	**100.00**	**391,856,849**	**100.00**

INCOME STATEMENT

Income and expense structure and their share in the corresponding 2016 Income Statement categories are as follows:

In thousand RSD

INCOME	31.03.2016 Total	31.03.2015 Total
Interest income	4.298.254	5,088,885
Fee and commission income	1,405,936	1,404,876
Net gains on the financial assets held for trading		
Net gains on financial assets available for sale	18,099	-
Net income from foreign exchange differentials and the effects of agreed currency clause	-	31,757
Other operating income	70,274	104,280

EXPENSES	Total	Total
Interest expense	917,923	1,627,904
Fee and commission expense	241,611	260,976
Net expense from exchange rate differentials and the effects of agreed currency clause	-	116
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	43,297	9,927
Cost of salaries, allowances and other personnel expenses	24,405	-
Depreciation cost		
Other expenses	492,099	1,391,544
	1,052,684	1,003,626
	185,917	206,101
	1,431,619	1,921,672

Result of the period (profit)	**1,403,008**	**207,932**

CASH FLOW STATEMENT

In thousand RSD

Item	31.03.2016 Total	31.03.2015 Total s
Cash inflows from operating activities	**6,096,141**	**6,966,099**
Inflow from interest	4,612,386	5,498,058
Inflow from fees	1,430,147	1,418,375
Inflow from other operating activities	44,422	48,717
Inflow from dividends and share in profit	9,186	949
Cash outflows from operating activities	**3,404,550**	**4,168,293**
Interest payments	879,567	1,383,904
Fee payments	242,216	261,431
Payments for gross salaries, allowances and other personnel expenses	892,117	879,434
Taxes, contributions and other duties charged to income	170,079	178,002
Payments for other operating expenses	1,220,571	1,465,522
Net cash inflow from operating activities before increase or decrease in loans and deposits	**2,691,591**	**2,797,806**
Decrease in lending and increase in deposits and other liabilities	**18,143,729**	**21,370,741**
Decrease in loans and receivables from banks, other financial organisations, the central bank and customers	1,486,615	15,511,912
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	2,084,492	5,858,829
Increase in deposits and other liabilities to banks, other financial organisations, the central bank and customers	14,572,622	-
Increase in lending and decrease in received deposits and other liabilities	**-**	**14,886,593**
Increase in loans and receivables from banks, other financial organisations, 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 organisations, central banks and customers	-	14,886,593

In thousand RSD

Item	31.03.2016 Total	31.03.2015 Total
Net inflow of cash from operating activities before profit tax	**20,835,320**	**9,281,954**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	-	1,170
Paid dividends	-	120
Net inflow of cash from operating activities	**20,835,320**	**9,280,664**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**7,666,798**	**11,370,221**
Inflow from investment securities	7,666,767	11,368,304
Inflow from sales of intangible assets, property, plants and equipment	-	1,917
Cash outflow from investment activities	**22,742,398**	**17,208,438**
Outflow for investing in investment securities	22,424,236	17,132,691
Outflow for purchase of intangible assets, property, plants and equipment	318,162	75,747
Outflow for purchase of investment property	-	-
Net outflow of cash from investment activities	**15,075,600**	**5,838,217**
Cash inflow from financing activity	**29,296,128**	**21,881,244**
Inflow from borrowings	29,296,128	21,881,244
Cash outflow from financing activity	**29,725,754**	**22,236,240**
Outflow from borrowings	29,725,754	22,236,240
Net outflow of cash from financing activity	**429,626**	**354,996**
Total cash inflow	**61,202,796**	**61,588,305**
Total cash outflow	**55,872,702**	**58,500,854**
Net increase in cash	**5,330,094**	**3,087,451**
Net decrease in cash	**-**	**-**
Cash and cash equivalents at the start of the year	**36,227,664**	**45,160,177**
Exchange rate gains	65,457	98,703
Exchange rate loss	-	-
End of period cash and cash equivalents	**41,623,215**	**48,346,331**

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 rise 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 from January – March 2016 amounts to RSD 3,380,331 thousand and is higher by RSD 80,650 thousand, or 2.33%, compared to the same quarter last year, and/or they remained at almost the same level as in the previous comparative period.

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 from guarantee approval fees 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 from January – March 2016 amounts to RSD 1,164,325 thousand and is higher compared to the same period 2015 by 1.79 % or RSD 20,425 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 2016 the Bank showed the net gains against financial assets held for trading in the amount of RSD 18,099 thousand (RS bonds, investment units of KombankInvest and gains from the sale of derivatives – forwards). As for financial assets available for sale, there was a net loss of RSD 43,297 thousand (RS 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 2016 amount to RSD 24,405 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 period 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 income of RSD 70,274thousand, the other operating revenues account for the largest share - 65.31% (in the last year 47.69 %), which mainly refer to the income from renting the real estate amounting to RSD 26,104 thousand. Other operating revenues came as a result of the compensation for mobile telephone expenses, court expenses and cost of utility services, and also as a result of income from damages paid by insurance companies. Within other income the most significant items relate to interest income from previous years generated from corporate and retail operations and entrepreneurs in the total amount of RSD 11,569 thousand.

Dividends received from investment in shares of other legal entities in the amount of RSD 9,186 thousand are shown as income from dividends at the moment of their collection. Income from dividends is part of Position: Other Income

3.6. Net Expenses for 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 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 favour 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.

Net expenses arising from indirect write off of loans and provisions amount to 492,099 thousands, while in the same period 2015 they amounted to RSD 1,391,544 thousand and were lower by RSD 899,445 thousand or 2.8 times compared to 31.03.2015. This came primarily as a consequence of the Bank's decision to increase the coverage of NPLs by impairments and provisions against expenses from 2015.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 1,052,684 thousand were higher by 49,058 thousand or 4.89 % compared to the same period last year. Net increase came primarily as a result of fees paid for amicable termination of employment in the amount of RSD 24,800 thousand, increase in the average number of employees compared to the same period last year and the growth of average salary in the Republic of Serbia which is the basis for calculating meal allowance, holiday pay and contributions of 3.2% compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 185,917 thousand are lower compared to the period January – March 2015 by RSD 20,184 thousand or 0.94%., mostly as a result of full depreciation of certain fixed and intangible assets.

3.9. Operating Expenses and Other Operating Expenses

Operating and other operating expenses stated in the amount of RSD 1,431,619 thousand and are lower year-on-year by RSD 490,053 thousand or 25.50%, mostly as a result of decrease in the cost of provision for court disputes of RSD 178,667 thousand (these expenses were zero in the same period 2015) and other expenses in the amount of RSD 272,876 (last year this item included interest expenses from the change in interest from previous years for corporate and retail clients, whereas no such bookings were made in the observed period).

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

Operating expenses in the total amount of 1,405,402:

- costs of production services in the amount of RSD 483,395 thousand of which the largest amounts come from: rental costs for office space, equipment and advertising space in the amount of RSD 178,124 thousand, costs of managing and maintaining ATMs and POS terminals and equipment for payment cards amounting to RSD 80,380 thousand, costs of maintenance of information equipment and software in the amount of RSD 51,282 thousand, costs of advertising and marketing amounting to RSD 45,006 thousand and the cost of rental of equipment for printing services in the amount of RSD 16,077 thousand.
- intangible costs totalling RSD 614,967 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 381,922 thousand. High share of deposit insurance expenses was caused by a deposit insurance premium calculated and paid on average balance of deposits.
- cost of materials amounting to RSD 93,884 thousand

Other expenses of RSD 26,217 thousand:
Other expenses amount to RSD 26,217 thousand and relate mostly to the cost of paid invoices coming from the Contract with the insurance company for the purpose of insuring the loan.

Other expenses in the same period last year amounted to RSD 299,094 thousand. Compared to the same period 2015, they are RSD 272,876 thousand lower, given that in the same period last year this item showed corrected interest from previous years as a result of the RS Government's Decree on reducing the interest on housing loans indexed in CHF (RSD 161,131 thousand) and a correction of interest from previous years related to loans to legal entities that were in the process of pre-packaged reorganization plan (RSD 112,839 thousand). The Bank did not post this kind of expense in the observed period.

BALANCE SHEET

Balance sheet total as of 31.03.2016 amounts to RSD 409,645,236 thousand, which in comparison to 31.12.2015 represents an increase of RSD 17,788,387 thousand or 4.54%. The increase came mostly as a result of increase in the item financial assets available for sale and loans and receivables from banks and other financial organisations on the assets side and an increase in deposits from the 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 45.24% (2015: 45.83%), financial assets available for sale with a share of 34.21% (2015: 32.45%), cash and funds at the central bank with a share of 15.27% (2015: 16.21%) and investment in subsidiaries of 1.34% (2015: 1.40%).

3.10. Cash and Funds with the Central Bank

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.

Cash and assets with the central bank as of 31.03.2016 amount to RSD 62,570,698 thousand, and account for 15.27% of Bank's total assets (16.21 % as of 31.12.2015). Compared to 31.12.2015 the position is decreased by RSD 953,017 thousand, which is a result of lower net outflows arising from increase in customer deposits compared to the cash outflow for that purpose: purchase of securities available for sale and increase in loans and facilities to customers.

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 916,685 thousand and financial assets available for sale in the amount of RSD 140,155,509 thousand together make up a percentage of share of 34.43% of total assets (2015: 32.67%); they increased compared to 2015 by RSD 13,047,755 thousand. The achieved increase almost entirely relates to investments in financial assets available for sale in the amount of RSD 12,982,126 thousand.

In the structure of dinar financial assets available for sale as of 31.03.2016, the largest share is that of the bonds of the Republic of Serbia of 72.22%, then T-bills of the Republic of Serbia with 26.73%. When it comes to securities in foreign currency, these are the bonds of the Republic of Serbia (88.00%), while the share of T-bills of the Republic of Serbia is 8.56%.

3.12. Loans and Receivables from Banks and Other Financial Organisations 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, 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 31.03.2016 loans and receivables from banks and other financial organizations amount to RSD 23,372,476 thousand with percentage of share of 5.71% of total assets (2015: RSD 16,844,000 thousand) and are higher by RSD 6,528,476 thousand. Increase from 31.12.2015 came mostly from an increase in the balance of funds at the regular account abroad, in the amount of RSD 7,155,014 thousand.

Loans and receivables from customers as of 31.03.2016 amount to RSD 161,931,292 thousand with a percentage of share of 39.53% of total assets (2015: 162,742,565 thousand) and have predominant share in asset structure. Total loans to customers are lower by RSD 811,273 thousand mainly due to increase in loan impairment resulting from correction of credit risk for approx. ten clients, the largest of which are Doo PPG marketing, Lagado Bujanovac, Fertil ad Bačka Palanka, Wunder Niš, Podrum Palić and VID doo Beograd.

3.13. Investment in Subsidiaries

Investments in subsidiaries are RSD 5,480,888 thousand and account for 1.34% of total assets. Ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with related entities, as part of regular operations. These include primarily loans and deposits. Transactions with related entities have been carried out on market terms.

3.14. Other Assets, Intangible Assets, Property and Investment Property, Current Tax Assets, Fixed Assets Intended for Sale, Deferred Tax Assets

All these items account for as little as 3.72% of total assets, of which the largest part is property, plants and equipment in the amount of 1.48%, other assets 1.39% and investment property in the amount of 0.67%. Other assets in the amount of RSD 5,698,806 thousand decreased from 2015 by RSD 341,677 thousand mainly due to impact of a decrease in receivables for purchase and sale of currencies on FX market in foreign currency (net decrease amounts to RSD 238,010 thousand) and decrease in balance at the temporary account for receivables from payment card for withdrawals from ATMs (in the amount of RSD 257,528 thousand) at the amount higher than the increase in other receivables.

Receivables from court disputes in the amount of RSD 209,430 thousand almost entirely relate to the client KMS and have been fully provisioned.

Investments in the capital of banks, foreign and local legal entities as of 31.03.2016 amount to RSD 1,340,659 thousand (gross amount, excluding impairment allowance), of which stake in the equity of foreign entities amounts to RSD 745,303 thousand and these are stakes in the companies Master and Visa International.

LIABILITIES

In the period January - March 2016 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers and the capital with a total percentage of 81.30% (2015: 80.94%) of total liabilities. Share of capital in total liabilities equals 15.33% (2015:15.68%).

Other items account for 3.37% of total liabilities, with the largest part of this item being subordinated liabilities with a percentage of 1.52%.

3.15. Deposits and Other Liabilities to Banks, Other Financial Organisations 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 316,784,279 thousand thus accounting for 77.33% of total liabilities (2015: 76.56%) followed by deposits and other liabilities to banks, other financial organisations and the central bank in the amount of RSD 16,277,240 thousand with a share of 3.97% (2015: 4.38%).

When compared to 2015 the total increase in deposits is RSD 15,896,299 thousand: transaction deposits are higher by RSD 12,521,545 thousand, while all other deposits recorded an increase in the amount of RSD 3,374,754 thousand. Net increase in transaction deposits resulted from an increase in RSD transaction deposits of RSD 12,042,474 thousand while the transaction deposits in foreign currency are at the same level in both observed periods. The structure of transaction deposits is still dominated by deposits in local currency with share of 65.16%, whereas the remaining 34.84% are deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 89.42% while dinar deposits account for 10.58%. FX savings increased EUR 3.6 million.

Borrowings

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 24,659,717 thousand and with a percentage of share in total liabilities of 6.02% it recorded a reduction relative to 2015 in the amount of RSD 583,172 thousand, as a result of repayment of due tranches.

In item – liabilities to foreign banks, same as last year, the borrowings from the following foreign creditors account for the largest share:

1. EFSE fund (RSD 4,739,969thousand)
2. GGF (RSD 1,212,036 thousand)
3. FMO (RSD 2,048,742 thousand)
4. IFC (RSD 1,843,868 thousand)
5. EBRD (RSD 3,336,522 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 39,756 thousand,
2. Government of the Republic of Italy – RSD 549,780 thousand,
3. European Investment Bank (EIB) – RSD 5,713,891 thousand,
4. European Agency for Reconstruction (EAR) – RSD 258,174 thousand,
5. KfW – RSD 4,916,980 thousand.

The presented long-term loans are due over the period from 2016 until 2022.

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 IFC. Subordinated liabilities as of March 31st, 2016 amount to RSD 6,218,343 thousand and they comprise the subordinated loan in dinar equivalent of EUR 50,000 thousand or RSD 6,146,225 thousand reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 14,765 thousand and accrued liabilities from interest of RSD 86,883 thousand. The loan was approved by the International Finance Corporation.

3.17. Provisions

The Bank's provisions in the amount of RSD 2,132,430 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 2015, in the observed period there was an increase in provisions in the amount of RSD 23,410 thousand.
Net increase came wholly as a result of the increase in provisions for losses from off-balance-sheet assets.

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 31.12.2015, there were no changes in the total level of these provisions, but only a change in the amount of provision per client.

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The most important items relate to:

- Provisions for a facility to Interexport a.d. Beograd (in bankruptcy) – for uncovered letters of credit from 1991 in the total amount of RSD 943,660 thousand. The case of this dispute has been separated before the court into two cases – claim for the settlement of the debt of Interexport a.d. (in bankruptcy) by the state:
    a) Republic of Serbia, in the amount of USD 4,773 thousand for the principal and USD 944 thousand for interest and
    b) Interexport a.d. Beograd (in bankruptcy), in the amount of USD 1,946 thousand for principal and USD 925 for interest, and
- Provision for the performance guarantee concluded with the Privatisation Agency (case of VektraM d.o.o. Beograd) in the amount of RSD 207,059 thousand for interest. The contract concerns the sale of the socially-owned capital of DP Župa concluded on 13 January 2004 between the Privatisaion Agency of the Republic of Serbia and the company VektraM d.o.o. Beograd. A provision for the performance bond (provision for off-balance-sheet items) was made in the Bank's books for this case, in the amount of RSD 260,686 thousand.

The Bank has made provisions for another three court disputes, in the total amount of RSD 44,155 thousand.

3.18. Other liabilities

Other liabilities amount to RSD 5,105,887 thousand and compared to 2015 are higher by RSD 185,519 thousand. Percentage share of other liabilities in the total liabilities is 1.25% (2015: 1.26%). The most important items in other liabilities are liabilities from profit for dividends on ordinary shares in the amount of RSD 1,934,065 thousand, liabilities for dividends from profit for priority and preference convertible shares in the amount of RSD 152,413 thousand, liabilities in the account for the purchase and sale of foreign currency from banks in the amount of RSD 491,698 thousand, other liabilities from SPOT transactions in the amount of RSD 294,668 thousand, liabilities for net salaries in the expenses of RSD 277,817 thousand and liabilities for closed accounts of clients deleted at the competent register in the amount of RSD 134,923 thousand.

3.19. Capital

The Bank's capital comprises the original founding capital, shares from later issues, 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 assets 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 31.03.2016 the Bank's capital consists of:

In RSD thousand	2016	2015
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 the profit	24,935,440	24,935,440
Revaluation reserves	3,052,040	2,755,618
Unrealized losses based on securities available for sale	(597,428)	(227,944)
Actuarial gain	79,151	79,151
Reserves	27,469,203	27,542,265
	1,582,558	179,550
Accumulated profit	3,052,040	2,755,618
Loss	(6,299,631)	(6,299,631)
Balance as at date	62,786,680	61,456,734

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 2015, calculated on the basis of the financial statements, equals 22.02% having implemented the applicable decisions of the National Bank of Serbia for 2016.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 31.03.2016 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 31.03.2016 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
Company Dunav osiguranje	1.02
Evropa osiguranje AD Beograd in bankruptcy	1.01
UNICREDIT BANK Serbia – custody account 2	0.75
STANKOM CO DOO BEOGRAD	0.70
EAST CAPITAL (lux) EASTERN E	0.52
ERSTE BANK a.d. Novi Sad	0.51
Other	7.53
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as of 31.03.2016

RECEIVABLES In thousand RSD

Subsidiary	Loans and advances	Interests and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom.banka AD Budva	6,677	877	-	-	7,554	-	7,554
2. Kom.banka AD Banja Luka	193,167	8	464	-	193,639	368,774	562,413
3. Kombank INVEST	-	73	-	-	73	200	273
TOTAL:	**199,844**	**958**	**464**	**-**	**201,266**	**368,974**	**570,240**

LIABILITIES In thousand RSD

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Budva	295,362	-	1,717	297,079
2. Kom.banka AD Banja Luka	129,743	-	-	129,743
3. Kombank INVEST	116	-	-	116
TOTAL:	**425,221**	**-**	**1,717**	**426,938**

INCOME AND EXPENSES for period 01.01 – 31.03.2016 In thousand RSD

Subsidiary a	Interest income	Fee and commission income	Interest expenses	Fee and commission 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.

4. B. Balance as of 31.12.2015

RECEIVABLES In thousand RSD

Subsidiary	Loans and advances	Interest and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom.banka AD Budva	6,582	868	-	-	7,450	-	7,450
2. Kom.banka AD Banja Luka	573,380	-	2,599	-	575,979	-	575,979
3. Kombank INVEST	-	77	-	-	77	200	277
TOTAL:	**579,962**	**945**	**2,599**	**-**	**583,506**	**200**	**583,706**

LIABILITIES In thousand RSD

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Budva	875,044	-	1,698	876,742
2. Kom.banka AD Banja Luka	104,350	-	-	104,350
3. Kombank INVEST	8,323	2	-	8,325
TOTAL:	**987,717**	**2**	**1,698**	**989,417**

INCOME AND EXPENSES for period 01.01.- 31.03.2015

In thousand RSD

Subsidiary	Interest income	Fees and commission income	Interest expenses	Fees and commission expenses	Net income / expenses
1. Kom.banka AD Budva	27	383	-	(494)	(84)
2. Kom.banka AD Banja Luka	2,288	556	-	(96)	2,748
3. Kombank INVEST	-	105	(8)	-	97
TOTAL:	**2,315**	**1,044**	**(8)**	**(590)**	**2,761**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss in the amount of RSD 7,090 thousand.

5. RISK MANAGEMENT

The Bank has recognized the risk management process as a key element in managing its operation, in view of the fact that exposure to risks arises from all business activities as an inseparable part of the banking operation, which are managed by identification, measurement, mitigation, monitoring and control, and/or by establishment of the risk limitation, as well as the reporting in conformity in accordance with strategies and policies.

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

The risk management process includes a clear definition and well-documented facts of the risk profile, as well as the aligning of the risk profile with the Bank's risk assumption propensity, in accordance with adopted strategies and policies.

The Bank has set by the Risk Management Strategy and Capital Management Strategy the following goals within the risk management system: to minimize the adverse effects on the financial result and capital by observing at the same time the defined framework of the acceptable risk level, to maintain the necessary capital adequacy level, to develop the Bank's activities in accordance with business possibilities and market development, all aimed at achieving the competitive advantages.

The Bank is applying the Basle II standards and is permanently following up all the announcements of and amendments in legal regulations, analyzing the impact on the risk level, and taking measures for a timely harmonization of its operation with the new regulations, in accordance with the risk level acceptable for the Bank. Through the clearly defined process of introduction of new products, the Bank analyzes the influence of all new services and products on the future exposure to risks, aimed at optimizing its revenues and costs with respect to estimated risk, and also at minimizing any potential possible negative effect on the financial result of the Bank.

Risk Management System

The Risk Management System is defined by the following acts:

- the Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Individual Risk Management Methodologies;
- other cats.

The Risk Management Strategy defines:

- long-term objectives as determined by the Bank's business policy and strategy, as well as the risk propensity determined in accordance with such risks;
- basic principles of risk assumption and management;
- basic principles of the internal process of the Bank's capital adequacy assessment;
- overview and definition of all risks the Bank is or may be exposed to.

The Bank has established the basic principles of risk management so as to accomplish its long-term goals:

- organizing a separate organizational unit to deal with risk management;
- functional and organizational separation of the risk management activities from regular operating activities of the Bank;
- comprehensive risk management;
- effectiveness of risk management;
- risk management cyclical nature;
- risk management development as a strategic orientation;
- risk management as a part of business culture.

The policies managing certain risk types define in a greater detail:

- the mode of organizing the process of the Bank's risk management and clear demarcation of responsibilities of the employees in all phases of that process;
- the mode of assessing the Bank's risk profile and the methodology for the risk identification and measurement, and/or assessment;
- the mode of risk monitoring and control, and of establishing the system of limits, and/or the types of limits used by the Bank and their structure;
- the risk mitigation measures and the rules for applying such measures;
- mode and methodology for carrying out the process of internal assessment of the Bank's capital adequacy;
- the principles of functioning of the system of internal controls;
- the framework and frequency of stress testing, as well as of acting in the cases of unfavorable results of stress testing.

Risk management procedures enable the Bank to define more specifically the process of managing the risks and the competences and responsibilities of all organizational parts of the Bank in the risk management system.

The Bank has more specifically prescribed by individual methodologies the methods and approaches that are used in the risk management system.

Competences

The Board of Directors is competent and responsible for adoption of risk management strategies and policies and capital management strategy, establishment of the internal controls system in the Bank, and it is the body that supervises its efficiency, supervises the work of the Executive Board, adopts quarterly risk management reports, the Recovery Plan, and is also responsible for the implementation of the process of internal capital adequacy assessment, etc.

The Executive Board is competent and responsible for the implementation of the risk management strategies and policies and capital management strategy by adopting the procedures for risk management, and/or risk identification, measurement and assessment, and by ensuring their application and reporting to the Board of Directors on such activities.

Also, the Executive Board analyzes the risk management system and informs the Board of Directors at least quarterly about the level of exposure to the risks and about the risk management, and decides based on prior consent of the Board of Directors about each increase of the Bank's exposure to a person related with the Bank, and notifies the Board of Directors thereof.

Audit Committee is competent and responsible for the analysis and supervision over the application and adequate implementation of the adopted risk management strategies and policies, and the system of internal controls. It informs the Board of Directors at least once a month about its activities and the irregularities found, and proposes the mode for their elimination.

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

Credit Committee decides about the loan applications within the limits established by the Bank acts, analyzes the bank's exposure to credit, interest rate and currency risks, analyzes the loan portfolio, and also proposes measures to the Bank's Executive Board.

Receivable Recovery Committee which is competent and responsible for managing risky loans decides on the write-off of risky loans up to the defined decision-making limit, and proposes the write-off of risky lending that exceeds this limit to the Executive Board and Board of Directors.

Risk Management Function defines and proposes for adoption the risk management strategy, policies, procedures and methodologies, identifies, measures, mitigates, monitors and controls the risks, and reports about the risks the Bank is exposed to in its operation. Also, it is competent for developing the risk management models and methodologies and for reporting the Bank's bodies thereabout.

Assets Management Division is responsible for assets and liquidity management, as well as for managing the Bank's assets and liabilities. Also, it participates in managing the liquidity risk, interest rate risk and the FX risk.

Internal Audit Division is responsible for a continuous supervision over the implementation of the risk management policies and procedures; it examines the adequacy of the procedures and whether the Bank's operation is compliant with them. Internal audit notifies the Audit Committee and the Board of Directors of its findings and recommendations.

Compliance Division has a duty to identify and assess at least once a year the risks of such compliance, and to propose the plans for risk management, on which it prepares a report that is submitted to the Executive Board and the Audit Committee.

Risk Management Process

The Bank regularly measures and/or assesses the risks its operation. The measurement involves the application of qualitative and quantitative methods and models of measurement that enable seeing the changes in the risk profile and assessing new risks.

The Bank determines for all identified risks their significance which is based on the comprehensive assessment of the risks that are characteristic for certain Bank operations, products, activities and processes.

Risk mitigation involves the risk diversification, transfer, reduction and/or avoidance, and the Bank carries it out in accordance with the risk profile and the risk propensity.

Risk monitoring and control are also based on the limits set by the Bank, which depend on the business strategy and market environment, as well as on the risk level that the Bank is ready to accept.

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

Risk Types

The Bank is in its operation particularly exposed to the following types of risks: the credit and its related risks, liquidity risk, market risks, operational risks, investment risk, exposure risk and country risk, as well as to all other risks that may appear in regular Bank operation.

5.1. Credit Risk

Credit risk is a risk of possible occurrence of negative effects on the Bank's financial result and capital due to non-fulfillment of debtors' liabilities to the Bank.

The Bank has in place the defined criteria for approval of loans, changes of the terms and conditions, reprogramming and rescheduling of the receivables, which are prescribed by the loan approval procedures and methodologies. Loan approval is performed depending on the target market, debtor characteristics, and the purpose of the loan.

Prior to approval, the Bank assesses the potential debtor's creditworthiness as a primary source for the loan repayment. The Bank makes this assessment on the basis of internally defined criteria and of the offered collateral as a secondary source of collection. On the grounds of identified and measured credit risk level (assessment of debtor's financial standing and creditworthiness, as well as the value and legal security of the credit protection and other relevant factors), and independent opinion about the risk, the Bank's relevant committees and bodies make a Decision approving the investment in conformity with the defined decision-making system.

Decision-making on exposure to credit risk has been defined by the Bank through the decision-making system depending on the customer type and the level of exposure: for investments within the defined limit decisions are made by the credit committees of the branches, and in certain cases the consent of the organizational part in charge of risk management is also necessary. Investments above the defined limits fall under the competence of central credit committees (depending on the customer type) which decide on the basis of the prior opinion of the organizational part in charge of risk management. The Executive Board and the Board of Directors make decisions in conformity with the defined exposure limits.

At the time of decision-making the double control or the so-called "four-eye" principle is applied, which ensures to have at all time the side that proposes and the side that approves a certain lending.

For loans contracted in a foreign currency or in the RSD with the FX clause the Bank assesses the impact of the changes in the RSD exchange rate on the financial standing and creditworthiness of the debtor, and analyzes in particular the adequacy of the debtor's cash flows relative to the changed level of credit liabilities assuming that certain changes in the exchange rate of the RSD will occur at the annual level.

Credit Risk Management

The Bank has organized the process of credit risk management in accordance with the volume, type and complexity of operations it is performing, and has clearly demarcated the responsibilities of the employees in all phases of that process.

The Bank's organization model of the credit risk management system provides for adequate communication, exchange of information and cooperation at all organizational levels, and a clear, operational and organizational separation of the function for independent risk management and support activities on one side, and the risk assumption activities, and/or a division of duties, competences and responsibilities.

The Bank has established an adequate information system, which implies full information of the persons involved in the credit risk management system and provision of adequate reports for the Bank management.

The acceptable level of the Bank's exposure to credit risk is in accordance with the defined Risk Management Strategy and depends on the Bank's portfolio structure on the basis of which possible influence of adverse effects on the financial result and capital adequacy is limited.

Basic principles of the risk management are:

- credit risk management at the level of individual loans and at the level of the Bank's entire portfolio;
- maintenance of the credit risk level that minimizes the negative impact on the financial result and capital;
- loan ranking in accordance with their riskiness;
- operation in accordance with good loan approval practices;
- ensuring adequate controls for credit risk management.

In order to manage the credit risk, the Bank is trying to operate with customers of good credit worthiness, and procures adequate payment security instruments. The Bank assesses the credit worthiness of each customer at the time of filing of the application, and monitors the debtor, the lending and the collateral in order to be able to take appropriate activities intended to recover its receivable.

The Bank performs quantitative and/or qualitative measurement, or assesses the identified credit risk. The process of credit risk measurement is based on the measurement of the level of individual loan riskiness based on the internal rating system.

Rating system is an instrument for making individual decisions and for assessing the risk level of individual lending. Additionally, the rating system serves for assessing the risk level of the whole portfolio, and is also used in the process of loan impairment intended to rank the level of riskiness and of presenting the real value of receivables. Internal rating system is subject to regular review and improvement.

In analyzing the credit risk, the Bank is also using, apart from the internal rating system, the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each lending on the basis of the prescribed criteria and calculation of the provision for assessed losses. Application of these criteria enables the Bank to cover unexpected losses that can occur as a result of a customer's impossibility and inability to settle his liabilities when due according to the terms and conditions defined by the agreement. By regular analysis of the portfolio the Bank classifies the receivables and calculates the necessary level of provisions for assessed losses. The analysis includes measurement of the adequacy of the provisions for assessed losses by customers, risk categories, portfolio segments, and the portfolio as a whole.

Credit risk mitigation implies the risk maintenance at the level acceptable for the Bank's risk profile, and/or maintenance of the Bank's credit portfolio quality at acceptable level.

Basis credit risk mitigation techniques include:

- Exposure limits – concentration risk,
- Investment diversification,
- Security instruments (collaterals).

Exposure limits per individual debtor are based on assessed creditworthiness of the debtor, while exposure limits at portfolio level are measured to the limitation of exposure concentration in the portfolio. The Bank controls on a continuous basis the credit risk movements within the defined risk profile.

Concentration risk includes: large exposure (exposure to one person or to a group of related persons and persons related with the Bank), groups of exposures with the same or similar risk factors such as corporate sectors, product types, geographic regions, etc., country risk, credit protection instruments.

Monitoring of the quality of lending at the level of individual debtor is based principally on the provision of updated data about the financial standing and creditworthiness of the debtor, and market value of the collateral, whereas monitoring of the credit risk at the portfolio level is done by identifying the changes at the level of a group of customers of a certain risk level, loans, collaterals, provisions necessary for expected and unexpected losses, for the purposes of establishing and managing the balance and quality of assets.

Credit risk control implies a process of continuous harmonization of operation with the defined system of limits, as well as in the conditions when the exposure to credit risk tends to the upper limit of the defined risk profile, and/or at introducing new business products and activities.

In order to protect itself against the risk of default in dealing with customers, the Bank is undertaking the following measures for regulating its receivables: reprogramming or restructuring, setting-off, takeover of the collaterals in order to recover the receivables, conclusion of contracts an interested third party, institution of a court dispute, and other measures.

In case the measures implemented to settle the loans i.e. foreclosure and court proceedings fail to yield the expected results i.e. when there is no possibility for collection of receivables in their entirety, a proposal is initiated for permanent write off of the Bank's remaining receivables.

Apart from credit exposure, the Bank also has off-balance-sheet exposure (payable guarantees performance bonds, B/E guarantees, L/Cs) which place a potential obligation on the Bank to make payments for the account of third parties. For its off-balance-sheet exposure the Bank uses the same control processes and procedures used for credit risk.

Reporting on credit risk includes the internal and external reporting system and is carried out on a monthly basis at a predefined schedule, in accordance with the defined reporting system.

Risk of change in asset quality

Asset quality of the Bank is measured by the degree of exposure to certain risk categories according to the criteria specified in the internal rating system. The internal rating system is based on quantitative and qualitative parameters used for determining the borrower's rating. The rating scale has five risk categories divided into 17 subcategories. Different exposures to the same borrower assign the same rating category, regardless of the peculiarities of different types of loan.

The Bank uses different rating models for credit risk, depending on the type of client. Rating is calculated on a monthly basis and depends on qualitative and quantitative parameters and on how up-to-date the repayments are.

Low risk level is assigned to business transactions with creditworthy clients and is acceptable for the Bank (rating categories 1 and 2), increased risk level means business transactions with clients that are experiencing certain problems in operation and which may adversely affect the repayments and their activities are monitored intensively (rating category 3) and high risk level for clients with negative operating results and poor credit history (risk categories 4 and 5).

The Bank is protected against the risk of change in asset quality by continuously monitoring the operation of clients, identifying the changes that might arise as result of deterioration in the borrower's condition, default in repayment or changes in the environment, as well as by obtaining the appropriate collaterals.

Risk of change in the value of assets

The aim of loan impairment is to ensure reasonable, prudent and timely identification of loss in order to protect the Bank's capital in the period when the loss is also definitely confirmed (realized) due to inability to collect the agreed amounts or through outflow of funds for the settlement of potential liabilities.

Loan impairments and provisions are made only when there is a justified reason i.e. when there is objective evidence of impairment as a consequence of the events that occurred after the initial loan recognition and which have an adverse effect on future cash flows from the loan.

Key elements in the assessment of loan impairment are: default in repayment of the principal or interest, difficulties in the borrower's cash flow, decline in credit rating or change of the initial conditions from the contract, etc.

Loan impairment is done on the basis of assessment of future cash flows from the client's operation or by foreclosure of collaterals in case it is estimated that it is realistic to settle the loan from these assets.

The Bank assesses the impairment of receivables on both individual and group level.

Individual assessment

The Bank assesses impairment allowance for each individually significant loan and in this process the following aspects are taken into consideration: the borrower's financial position, sustainability of the business plan, the borrower's capacity to improve their performance in case of financial difficulties, projected revenues, availability of other types of financial support and the value of collaterals that can be sold, as well as the expected cash flows. If new information arises which, according to the assessment, may significantly alter the client's creditworthiness, the value of collateral and the likelihood that the client's liabilities to the Bank will be settled, a new assessment of loan impairment is made.

Group assessment

Impairment allowance is assessed on a group basis for loans that are not individually significant and on individual basis for single significant loans when there is no objective evidence of individual impairment. Group assessment is made by groups that are set up on the basis of internally prescribed methodology, based on the internal rating system. This is done on a monthly basis. Calculation of group percentage of impairment is carried out on the basis of migrations from the risk categories into the default status by client and product type.

Loan impairment reduces the value of the loan and is recognised as expense in the profit and loss account.

Establishing probable loss from off-balance-sheet items

Probable loss from off-balance-sheet items (potential liabilities) is established when it is assessed that there is a sufficiently probable expectation that there will be an outflow of funds for the settlement of a potential liability.

When assessing provisions for potential losses from off-balance-sheet items, the funds from the sale of collaterals are recognized in case there is absolute certainty that the outflow of funds for potential liabilities will be compensated for from the collaterals.

5.1.1. *Maximum exposure to credit risk*

Maximum exposure to credit risk as of 31 March 2016 and 2015 is shown in the table below. The table does not take into consideration any collateral or any other credit protection. The stated values are shown in gross and net carrying amount (after the mitigation effects from impairment).

Maximum exposure to credit risk before collaterals and other enhancements

In RSD dinars

	31 March 2016		31 December 2015	
	Gross	**Nett**	**Gross**	**Nett**
I. Overview of assets	**429,288,539**	**391,045,489**	**411,139,949**	**373,696,686**
Cash and assets at the central bank	62,570,698	62,570,698	63,523,715	63,523,715
Loans and receivables from banks and other financial institutions	23,765,234	23,372,476	17,243,760	16,844,000
Loans and receivables from customers	199,016,206	161,931,292	199,026,572	162,742,565
Financial assets	141,171,401	141,072,194	128,122,478	128,024,439
Other assets	2,765,000	2,098,829	3,223,424	2,561,967
II. Off-balance-sheet items	**29,332,912**	**28,769,380**	**28,081,278**	**27,541,154**
Payable guarantees	3,840,613	3,719,323	4,702,206	4,548,918
Performance bonds	6,502,365	6,342,964	6,503,652	6,392,930
Irrevocable commitments	18,543,316	18,543,316	16,303,173	16,303,173
Other	446,618	163,777	572,247	296,133
Total (I+II)	**458,621,451**	**419,814,869**	**439,221,227**	**401,237,840**

The greatest credit risk for the bank comes from realised loan facilities, but the Bank is also exposed to the risk from off-balance-sheet items, and this risk stems from potential and drawn commitments.

Loans and receivables from customers, banks and other financial organisations

31.03.2016.

in RSD thousand

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Undue unimpaired	-	-	-	-	-	-	1,779,436	1,779,436	21,686,127
Due but unimpaired	-	-	-	-	-	-	150,832	150,832	1,686,349
Group impaired	37,625,221	17,876,220	6,207,443	6,440,220	6,431,424	74,580,527	86,545,924	161,126,451	392,758
Individually impaired	1,129,145	-	80,688	-	952,512	2,162,345	33,797,142	35,959,487	-
Total	**38,754,366**	**17,876,220**	**6,288,131**	**6,440,220**	**7,383,936**	**76,742,872**	**122,273,334**	**199,016,206**	**23,765,234**
Impairment	**831,084**	**1,004,385**	**422,078**	**737,243**	**1,093,632**	**4,088,422**	**32,996,492**	**37,084,914**	**392,758**
Group impairment	556,219	1,004,385	404,032	737,243	930,533	3,632,413	16,654,928	20,287,341	392,758
Individual impairment	274,865	-	18,046	-	163,098	456,009	16,341,564	16,797,573	-
Net carrying value	**37,923,282**	**16,871,835**	**5,866,052**	**5,702,977**	**6,290,304**	**72,654,450**	**89,276,842**	**161,931,292**	**23,372,476**

31.12.2015.

in RSD thousand

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Undue unimpaired	-	-	-	-	-	-	2,296,663	2,296,663	15,620,284
Due but unimpaired	-	-	-	-	-	-	136,129	136,129	1,223,716
Group impaired	37,371,641	17,297,093	5,589,643	6,407,131	6,158,650	72,824,158	87,419,835	160,243,993	399,760
Individually impaired	952,661	-	82,542	-	994,392	2,029,595	34,320,192	36,349,787	-
Total	**38,324,302**	**17,297,093**	**5,672,185**	**6,407,131**	**7,153,042**	**74,853,753**	**124,172,819**	**199,026,572**	**17,243,760**
Impairment	**888,843**	**984,660**	**409,008**	**721,661**	**1,049,869**	**4,054,041**	**32,229,966**	**36,284,007**	**399,760**
Group impairment	634,395	984,660	390,670	721,661	903,295	3,634,681	16,134,158	19,768,839	399,760
Individual impairment	254,448	-	18,338	-	146,574	419,340	16,095,808	16,515,168	-
Net carrying value	**37,435,459**	**16,312,433**	**5,263,177**	**5,685,470**	**6,103,173**	**70,799,712**	**91,942,853**	**162,742,565**	**16,844,000**

Impaired loans and receivables

Impaired loans and receivables are those loans and receivables for which the Bank establishes that there is objective evidence which points to impairment and for which the Bank does not expect the full due principal and interest to be collected, in accordance with the loan agreement. Impairment is done on individual and group basis. Loans and receivables that are 100% impaired are in the category of loans and receivables impaired on a group level.

Unimpaired loans in default

Due but unimpaired loans and receivables are those loans and receivables that are in default either for the agreed interest or principal (total receivables with any due liabilities for principal or interest are shown as due in the statement). The Bank believes that it would not be appropriate to form impairment for these receivables, bearing in mind that these receivables are likely to be collected by the Bank.

Unimpaired loans whose repayment is up-to-date

Undue unimpaired loans and receivables are those loans for which it has been established that it would not be appropriate to make impairments, given the likelihood of default status and certainty of collection by the Bank (loans and receivables form the Republic of Serbia).

Undue unimpaired loans and receivables from customers, banks and other financial organisations

in RSD thousand
31 March 2016

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Low (IR 1 and 2)	-	-	-	-	-	-	1,779,436	1,779,436	21,686,127
Increased (IR 3)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	1,779,436	1,779,436	21,686,127

in RSD thousand
31 December 2015

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Low (IR 1 and 2)	-	-	-	-	-	-	2,296,663	2,296,663	15,620,284
Increased (IR 3)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**2,296,663**	**2,296,663**	**15,620,284**

Due unimpaired loans and receivables from customers, banks and other financial organisations

in RSD thousand
31 March 2016

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Default of up to 30 days	-	-	-	-	-	-	-	-	1,686,349
Between 31 and 90 days	-	-	-	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-	150,832	150,832	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**150,832**	**150,832**	**1,686,349**

in RSD thousand
31 December 2015

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Default of up to 30 days	-	-	-	-	-	-	-	-	1,223,716
Between 31 and 90 days	-	-	-	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-	136,129	136,129	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**136,129**	**136,129**	**1,223,716**

5.1.2. Loans with a change in initially agreed terms

Loans with a change in initially agreed terms are those loans which have been rescheduled and/or restructured due to problems in servicing the liabilities within due deadlines. Bearing these problems in mind, the Bank decides to change the terms and deadlines in the contract in order to allow the borrower to service their liabilities more easily.

Rescheduling of receivables is carried out in case where the borrower currently has a gap between inflows and outflows, but their financial ratios are not compromised and indicate that the borrower will be capable of duly settling their rescheduled liabilities, according to the subsequently agreed repayment terms. Rescheduling of receivables applies to the borrowers in default of up to 90 days, mostly to an individual loan account i.e. this does not include all the receivables from the borrower.

Restructuring applies to borrowers with significant problems in operation and whose financial ratios are severely compromised. When implementing a restructuring:
- all balance-sheet receivables from the borrower are replaced i.e. a large portion of receivables;
- terms under which the loan was granted are changed significantly (this particularly means the extension of the repayment period for the principal or interest, reduced interest rate or the amount of receivables, as well as other changes in the loan terms that facilitate the borrower's position);
- adoption of appropriate financial consolidation program is mandatory.

5.1.3. Concentration risk

The Bank manages its concentration risk via the established system of limitations that includes limits of exposure to identical or similar risk factors (by industry/business activity, geographical area, individual borrowers or groups of related entities, instruments of credit protection...). Establishment of the relevant exposure limits is the basis for control of concentration risk with the aim of diversifying the loan portfolio.

Depending on the overall economic trends and trends in certain industrial sectors, the Bank diversifies its investment into sectors that are resistant to the effects of adverse economic trends.

5.1.4. Instruments of protection against credit risk (collateral)

Apart from regular monitoring of the client's operation, the most common practice the Bank uses to protect itself against exposure to credit risk is the acquisition of security instruments (collaterals) that secure the collection of receivables and minimise the credit risk. The amount and type of collateral required depends on credit risk assessment.

Standard security instruments the Bank obtains from the client are contract authorisation and promissory notes, while the following additional instruments are also secured, depending on the credit risk assessment and the type of the loan:

- For commercial loans – pledge of movables and mortgages, deposits, banking, corporate and government guarantees, sureties, pledge of securities, equity stakes and receivables;
- For retail loans – mortgages, deposits, guarantees by co-debtor, insurance by the National Mortgage Insurance Corporation.

When valuing a property or pledge of movables, the Bank ensures that the property is valued in a competent and independent manner by licensed valuers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movables that are pledged must be insured by an insurance company acceptable for the Bank and insurance polciies must be assigned in favour of the Bank.

With the aim of protection from a change in the market value of collaterals (mortgages, pledges, securities, etc.) collateral valuation is adjusted by the specified percentage, depending on the type of collateral and location and these are re-examined and revised at least once a year or more often, if needed. In this manner the Bank protects itself from potential loss that might arise in case it is not possible to collect the receivables from security instruments.

The Bank monitors and updates the collateral value and its trends in order to minimize the potential risk of unrealistic valuation. If needed, the Bank may demand an additional collateral in accordance with the signed agreement. Collaterals are a secondary source of collection of receivables.

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 and Liquidity Committee have the most significant role therein as well as other competent boards/committees, whose decisions can impact the Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

- diversifies sources of assets in respect to their currencies and maturities;
- forms sufficient liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity levels on a daily basis;
- limits principal sources of credit risk with most significant impact on liquidity;
- 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 2015, 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	
	31.03.2016.	31.12.2015.	31.03.2016.	31.12.2015.
	3.32	2.73	2.97	2.51
Average for the period	3,14	3,11	2,78	2,82
Maximum for the period	3,62	3,97	3,10	3,62
Minimum for the period	2,42	1,85	2,21	1,65

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	31.03.2016.	31.12.2015.
	Max (10%)	5,51%	5,54%
Cumulative GAP up to 3	Max (20%)	8,05%	6,84%

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 and Investment Committee have the most significant role therein as well as other competent boards/committees, whose decisions can impact the Bank's exposure to this risk.

5.3.1. Interest Rate 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;
- Basic 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:

	Лимити	31.03.2016.	31.12.2015.
Relative GAP	Max 15%	2,78%	1,38%
Mismatch ratio	0.75 – 1.25	1,03	1,02

During 2015, 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:

	31.03.2016.	31.12.2015.
As at	4.72%	5.23%
Average for the period	4,61%	8,68%
Maximum for the period	5,00%	10,70%
Minimum for the period	4,10%	5,23%
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:

	31.03.2016.	31.12.2015
	3.104.357	4,072,802
Currency risk ratio	8,10%	10.60%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

The 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. Investment risks

Investment risks are risks of the Bank's investment in other legal entities and in fixed assets and investment properties. The Bank's investment in a single entity that is not an entity in the financial sector must not exceed 10% of the Bank's capital. This investment is the one that allows the Bank to acquire an equity or shares in an entity outside the financial sector The Bank's total investment in entities outside the financial sector and in fixed assets and in the Bank's investment properties must not exceed 60% of the Bank's capital. However, this limitation does not apply to the acquisition of shares for the purpose of selling them within six months from the date they are acquired.

5.6. Exposure risk

Large exposure of the Bank to a single entity or a group of related entities, including the entities related to the Bank, is an exposure that exceeds 10% of the Bank's capital.

In its operation, the Bank ensures that it is compliant with the statutory exposure limits:

- Exposure to a single entity or a group of related entities must not exceed 25% of the Bank's capital;
- Sum of all large exposures of the Bank must not exceed 400% of the Bank's capital.

The set exposure limits to a single entity or a group of related entities apply also to the entities related to the Bank.

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

5.7. Country risk

Country risk is the risk associated with the country which the entity the Bank is exposed to originates from i.e. the risk of possible occurrence of negative effect on the Bank's financial result and capital due to the Bank's inability to collect receivables from borrowers for reasons that are a consequence of political, economic or social circumstances in the borrower's country. Country risk includes the following risks:

- Political – economic risk i.e. the likelihood of loss due to the Bank's inability to collect its receivables because of limitations specified in the legal documents passed by the government and other bodies of the borrower's home country, as well as general circumstances that characterise the system in that particular country;
- Transfer risk is the likelihood of loss due to inability to collect receivables in a currency that is not the official currency of the borrower's home country due to limitations in payment of liabilities to creditors from other countries in a certain currency – the limitations set in the legal documents of government and other bodies of the borrower's home country.

The Bank manages country risk both on the level of individual loan and on the level of portfolio. Measurement and control of exposure of an individual loan to country risk is performed by specifying the internal rating category the borrower's country is placed into, on the basis of the rating assigned by the internationally recognized rating agencies and by setting the exposure limit in the form of percentage of the Bank's capital, depending on the internal rating category of the country. The Bank measures and controls the exposure of its portfolio to country risk by grouping receivables according to the risk level of the borrower's country.

With the aim of adequately managing country risk, the Bank sets individual exposure limits for countries the borrowers originate from.

The Bank's loans granted to borrowers that are not headquartered in the Republic of Serbia, for the purpose of financing operations in the Republic of Serbia, and who are expected to settle their financial liabilities to the Bank from the revenue generated in the Republic of Serbia, constitute receivables that are not exposed to the risk associated with the borrower's home country.

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.

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 2016 and on 31 December 2015 for certain main currencies are as follows:

Currencies	Official NBS rate	
	2016	2015
USD	108.6001	111.2468
EUR	122.9245	121.6261
CHF	112.3624	112.5230

In Belgrade,
On 11.05.2016

Persons responsible for drafting the financial statements

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

	31.03.2016.	31.12.2015.
Core capital	39.700.805	40.078.298
Supplementary capital	4,174,087	3,909,144
Deductible items	(5,555,355)	(5,555,355)
Capital	**38,319,538**	**38,432,087**
Credit risk-weighted assets	149,220,732	144,531,657
Operational risk exposure	21,710,322	20,679,815
Foreign currency risk exposure	3,104,458	4,072,901
Capital adequacy ratio (minimum 12%)	**22.02%**	**22.70%**

In the course of 2016 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.

6. EVENTS AFTER THE BALANCE SHEET

At the meeting held on 20.04.2016 the Board of Directors of the Bank passed a decision on invitation to a regular General Meeting of the Bank's Shareholders to be held on 24.05.2016 with the following draft agenda:

- Decision on adopting the Strategy and Business Plan of the Bank for the period 2016 - 2018
- Decision on release from duty and appointment of a member of the Board of Directors of the Bank
- Annual Report for 2015
  a) Decision on adoption of the Annual Report for 2015
  b) Decision on adopting regular annual financial statements for the Bank for 2015 with the external auditor's opinion
  c) Decision on distribution of a portion of retained earnings from previous years into dividends for preference shares and
  d) Decision on covering the loss from 2015.
- Decision on adopting the Annual Report for the Group and regular consolidated financial statements for the Group for 2015 with the external auditor's opinion.

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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2016 to 31/03/2016 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	Executive Director for
Accounting Division	Finance and Accounting