



REPORT

OF THE BANK FOR THE SECOND QUARTER OF 2016

BELGRADE, JULY 2016



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The Quarterly Report for the second quarter of 2016 represents a reliable overview of the development and results of operations of Komercijalna banka a.d. Beograd, achieved in the second quarter of 2016, as well as in the first six months of 2016.

I BUSINESS REPORT OF THE BANK FOR THE SECOND QUARTER OF 2016

1. OVERVIEW OF BASIC INDICATORS OF BANK'S OPERATIONS IN THE PERIOD FROM 01/01/2016 TO 30/06/2016

1.1. Bank's Operation Indicators

DESCRIPTION	30/06/16	31/05/16	30/04/16	31/03/16	2015	2014
BALANCE SHEET (000 RSD)						
Balance sheet assets	409.953.486	414.028.367	411.127.517	409.645.236	391.856.849	406.261.524
Off-balance sheet operations	580.186.744	583.771.082	585.977.390	577.265.398	580.407.210	373.803.974
RETAIL						
Loans ¹	74.264.151	73.513.619	73.173.269	72.609.866	70.784.957	69.039.387
Deposits ²	226.039.019	223.561.748	221.436.329	221.189.992	218.836.847	207.430.548
CORPORATE						
Loans	82.241.658	85.635.954	85.640.486	87.231.841	89.204.275	112.768.251
Deposits	58.724.631	57.490.902	56.851.344	59.208.664	55.503.896	57.437.462
DESCRIPTION	30/06/16	31/05/16	30/04/16	31/03/16	2015	2014
INCOME STATEMENT (000 RSD)						
Profit/loss before taxation	-2.645.550	1.903.759	1.692.745	1.403.008	-6.414.158	4.757.589
Net interest income	6.787.583	5.670.697	4.522.757	3.380.331	13.529.809	13.298.586
Net fee income	2.415.945	1.977.144	1.570.832	1.164.325	4.899.947	4.717.757
PROFITABILITY PARAMETERS						
ROA	-1,30	1,13	1,26	1,40	-1,62	1,25
ROE – on share capital	-13,22	11,41	12,68	14,02	-16,02	11,88
ROE – on total capital	-8,53	7,28	8,11	8,99	-9,35	7,05
Net interest margin on total assets	3,34	3,35	3,36	3,37	3,42	3,49
Cost / income ratio	59,12	59,09	57,96	58,18	58,60	59,65
Operating costs (000 RSD) ³	5.440.907	4.518.943	3.531.549	2.644.003	10.799.510	10.745.910
Net expenses of indirect write-offs of placements and provisions (000 RSD)	6.246.223	1.253.078	885.334	492.099	13.008.527	2.725.389
Foreign exchange risk indicator	3,18	7,00	1,95	8,10	10,60	2,90
Liquidity indicator	2,86	3,43	3,08	3,32	2,73	2,84
Operating cash flows	5.446.337	4.316.132	3.379.301	2.691.591	7.819.613	7.121.339
DESCRIPTION	30/06/16	31/05/16	30/04/16	31/03/16	2015	2014
LOAN/DEPOSIT RATIO						
Gross loan/deposit	66,22	64,03	64,34	64,22	67,43	72,45
Net loan/deposit	54,70	53,92	54,26	54,33	57,19	66,33
CAPITAL (000 RSD)						
Capital adequacy	23,04	21,94	22,16	22,02	22,70	17,67
Number of employees	2.907	2.896	2.885	2.890	2.877	2.906
Assets per employee (000 EUR)	1.144	1.161	1.162	1.114	1.120	1.156
Assets per employee (000 RSD)	141.023	142.966	142.505	137.243	136.203	139.801

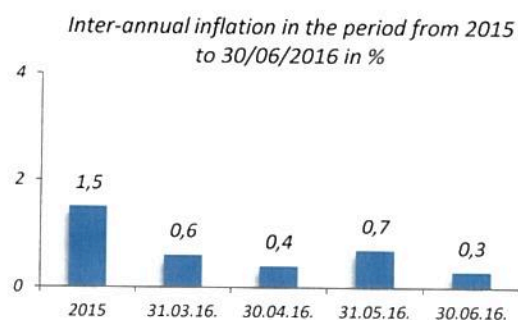
1 Loans (retail and corporate) do not include other placements and receivables

2 The Deposit item does not include other liabilities and funds received through credit lines

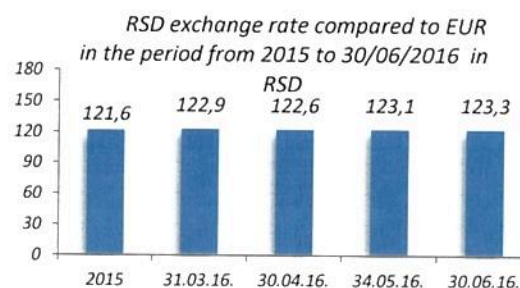
3 Operating costs include the costs of salaries, and tangible and intangible operating costs

2. MACRO-ECONOMIC OPERATION CONDITIONS IN THE PERIOD FROM 01/01/2016 TO 30/06/2016

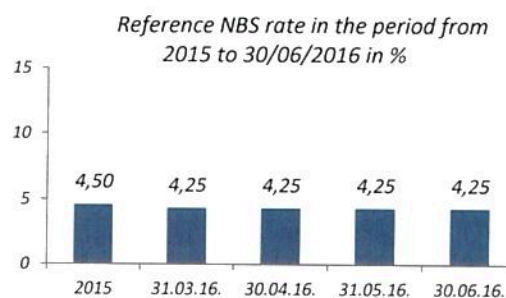
In 2016, the inflation rate continued to be below the lower limit of the projected deviation and, at the end of the second quarter, it amounted to 0.3% mg. Low inflation is the result of disinflationary pressures that are predominantly a result of low aggregate demand and low import inflation. In the following period, the inflation is expected to grow moderately, which should return to objective's limits (NBS) next year.



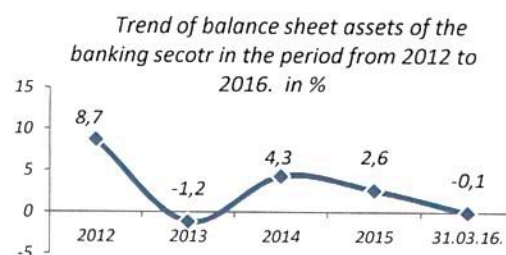
In the second quarter of this year, RSD slightly depreciated compared to EUR. RSD exchange rate was stabilised at the value of about RSD 123 per one EUR. At the end of the second quarter of the current year, the RSD exchange rate declined by 1.4% compared to the end of the previous year.



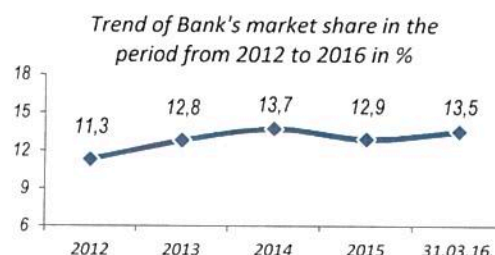
The reference NBS interest rate decreased in February 2016 to 4.25%. At the end of the second quarter, the reference interest rate stayed at 4.25% due to the assessment that the existing level of expansion of the monetary policy ensures recovery of the inflation within projected limits early next year. An important influence on the RKS level also has the existing uncertainty on the international goods and financial markets, as well as expected weakening of disinflationary pressures due to the global prices of primary products in the following period.



The banking sector in the Republic of Serbia recorded a slight decline in balance sheet assets in the first quarter of 2016 (0.1%) compared to the previous year.



Due to pre-privatisation "cleaning" of non-performing loans, and increase in NPL coverage with accumulated amortisation over 70%, in 2015, the Bank slightly decreased its share in the total balance sheet assets of the banking sector (-0.8 pp). In the first quarter of 2016, the Bank increased its market share by 0.6 pp and reached the level of 13.5%.



3. BASIC INDICATORS OF BANK'S OPERATIONS IN THE PERIOD FROM 01/01/2016 TO 30/06/2016

DESCRIPTION	30/06/16	31/05/16	30/04/16	31/03/16	2015	2014
BALANCE SHEET (000 RSD)						
Balance Sheet assets	409.953.486	414.028.367	411.127.517	409.645.236	391.856.849	406.261.524
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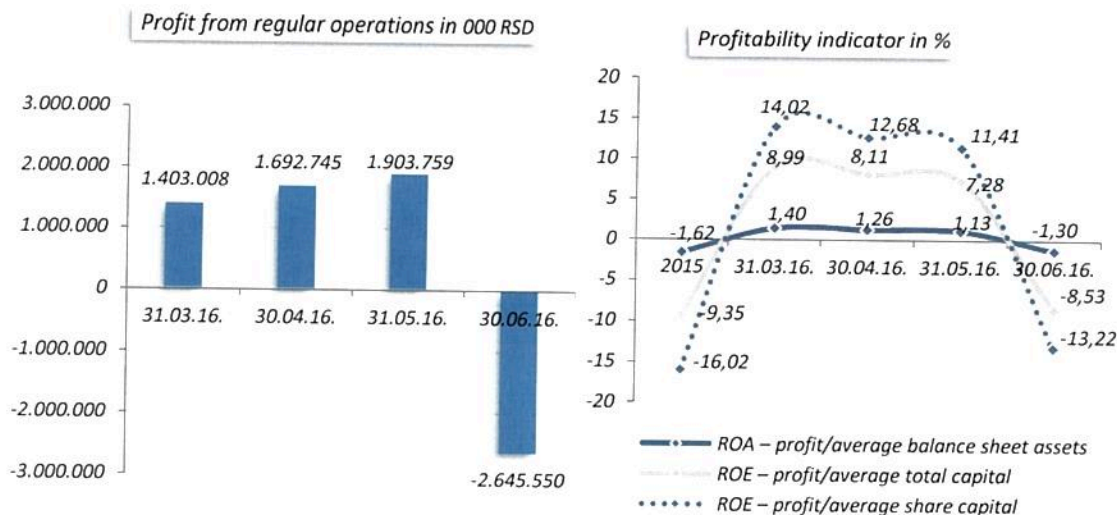
As of 30/06/2016, the balance sheet assets of the Bank amounted to RSD 409.953,5 million, and increased by RSD 18.096,6 million, or by 4.6%, compared to the end of the previous year.

Off-balance sheet assets slightly decreased in 2016, and amounted to RSD 580.186,7 million at the end of June this year.

In the first six months of 2016, the Bank reduced its debt through credit lines in the amount of RSD 343.660,8 million, which is slightly below what was achieved at the end of 2015 (-1.4%). In the same period, the Bank achieved growth of deposits (excluding other liabilities and credit lines) in the amount of RSD 20.365,4 million, or 7.0%. The structure of the stated change indicates that retail deposits increased by RSD 7.202,2 million, and deposits of legal entities by RSD 13.163,2 million. At the end of the second quarter, the Bank also achieved growth of granted loans (excluding other placements and receivables) in the amount of RSD 3.919,5 million, or 2.4%. The stated changes contain the effect of RSD depreciation compared to EUR and CHF.

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Operating costs (000 RSD) ⁴	5.440.907	4.518.943	3.531.549	2.644.003	10.799.510	10.745.910
Net expenses of indirect write-offs of placements and provisions (000 RSD)	6.246.223	1.253.078	885.334	492.099	13.008.527	2.725.389
Foreign exchange risk indicator	3,18	7,00	1,95	8,10	10,60	2,90
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Operating cash flows	5.446.337	4.316.132	3.379.301	2.691.591	7.819.613	7.121.339

⁴ Operating costs include the costs of salaries, and tangible and intangible operating costs



In June of the current year, the Bank conducted additional "cleaning" of the loan portfolio, which resulted in the growth of expenses based on the impairment of financial assets and credit risky off-balance sheet items, and expressed total net expenses based on impairment in the amount of RSD 6.246,2 million. As a consequence of conducted additional impairment of placements and receivables, a loss was achieved in the first six months of 2016. Despite the recorded loss, the Bank is highly capitalised and stable, with capital adequacy of 23.04%, which is considerably above the regulatory limit (12.00%), for which reason the additional regulation of risky assets will not adversely affect future operations. The Bank currently has allocated provisions from profit in the amount of RSD 18.791,8 million, which is RSD 4.861,8 million more than the total required provisions calculated according to NBS regulations (RSD 13.929,9 million). In the observed period, the Bank reached all business parameters prescribed by the Law on Banks, and fulfilled all the liabilities, which is a reliable indicator of stable and safe operations.

Trends of the results at the end of the second quarter of 2016, compared to the same period last year, were mostly affected by the stated increase in net expenses of indirect write-offs of placements and provisions in the amount of RSD 3.327,6 million, or 114.0%, decrease in net interest income in the amount of RSD 115,5 million, or 1.8%, and decrease in other operating income in the amount of RSD 59,8 million, or 28.6%. In terms of positive effects, it is important to point out the increase in net income from fees and commissions in the amount of RSD 43,9 million (1.%), and net profit based on financial assets held for trade, in the amount of RSD 26,1 million.

The increase in the scope of operations also increased the assets indicator per number of Bank's employees. In the first six months of 2016, assets per employee in the Bank increased from RSD 136,2 million (31/12/2015), to RSD 141,0 million, as of 30/06/2016.

At the end of the second quarter of 2016, "Cost Income Ratio" (CIR) amounts to 59.12%, whereas at the end of 2015, it amounted to 58.60%.

4. BALANCE SHEET AS OF 30/06/2016

4.1. Bank's Assets as of 30/06/2016

(IN 000 RSD)

No.	DESCRIPTION OF BALANCE ITEM	30/06/2016	31/12/2015	INDEX
1	2	3	4	5=3/4
1	Cash and assets held at the central bank	62.001.833	63.523.715	97,60
2	Pledged financial assets	-	-	-
3	Financial assets at a fair value through income statement intended for trade	873.259	851.056	102,61
4	Financial assets initially recognised at a fair value through the income statement	-	-	-
5	Financial assets available for sale	141.765.031	127.173.383	111,47
6	Financial assets held to maturity	-	-	-
7	Loans and receivables from banks and other financial organisations	26.487.270	16.844.000	157,25
8	Loans and receivables from clients	158.089.978	162.742.565	97,14
9	Changes of fair values of items that are the subject of risk protection	-	-	-
10	Receivables based on financial derivatives intended for risk protection	-	-	-
11	Investments in affiliated companies and joint ventures	-	-	-
12	Investments in subsidiary companies	5.480.888	5.480.888	100,00
13	Intangible assets	359.948	216.830	166,00
14	Property, plant and equipment	6.000.108	6.139.572	97,73
15	Investment property	2.717.557	2.744.026	99,04
16	Current tax assets	-	37.017	0,00
17	Deferred tax assets	212.833	-	-
18	Fixed assets held for sale and assets of discontinued operations	69.317	63.314	109,48
19	Other assets	5.895.464	6.040.483	97,60
	TOTAL ASSETS (from A1 to A19)	409.953.486	391.856.849	104,62

Bank's balance sheet assets increased for RSD 18.096,6 million or 4.6% at the end of the second quarter of 2016.

The structure of the increase of the scope of operations is dominated by the increase of the item "financial assets available for sale", which increased in the first two quarters of 2016 for RSD 14.591,6 million, or 11.5%. Loans and receivables from clients (according to the new balance sheet form) increased for RSD 4.990,7 million, or 2.8%. As of 30/06/2016, the total placements and receivables from clients and banks amount to RSD 184.577,2 million, which makes 45.0% of total balance sheet assets.

During the first six months of 2016, the item "cash and assets held at the central bank" recorded a decrease in the amount of RSD 1.521,9 million, or 2.4%.

4.2. Bank's Liabilities as of 30/06/2016

(IN 000 RSD)				
NO.	DESCRIPTION OF BALANCE SHEET ITEM	30/06/2016	31/12/2015	INDEX
1	2	3	4	5=3/4
1	Financial liabilities at a fair value through income statement held for trade	-	-	-
2	Financial liabilities initially recognised at a fair value through income statement	-	-	-
3	Liabilities based on financial derivatives intended for risk protection	-	-	-
4	Deposits and other liabilities towards banks, other financial organisations and the central bank	17.304.634	17.159.317	100,85
5	Deposits and other liabilities towards other clients	319.842.828	300.005.903	106,61
6	Changes of fair value items that are subject of risk protection	-	-	-
7	Issued Bank's own securities and other borrowed means	-	-	-
8	Subordinated liabilities	6.165.502	6.077.962	101,44
9	Provisions	2.127.130	2.109.020	100,86
10	Liabilities based on assets intended for sale and assets of discontinued operations	-	-	-
11	Current tax liabilities	-	-	-
12	Deferred tax liabilities	334.416	127.545	262,19
13	Other liabilities	5.671.494	4.920.368	115,27
	TOTAL LIABILITIES (from P 1 to P 13)	351.446.004	330.400.115	106,37
	CAPITAL			
15	Share capital	40.034.550	40.034.550	100,00
16	Bank's own shares	-	-	-
17	Profit	5.962	179.550	3,32
18	Loss	2.645.550	6.299.631	-
19	Reserves	21.112.520	27.542.265	76,65
20	Unrealised losses	-	-	-
21	Non-controlling interest	-	-	-
22	TOTAL CAPITAL (from P15 to P21)	58.507.482	61.456.734	95,20
	TOTAL LIABILITIES (from P1 to P21)	409.953.486	391.856.849	104,62

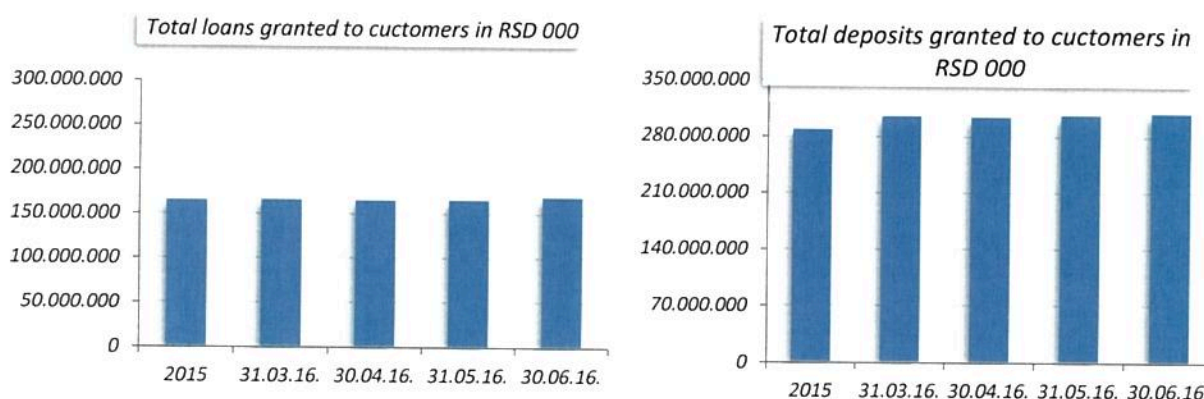
Total liabilities, at the end of the first six months of 2016, amount to RSD 351.446,0 million, and they make 85.7% of total liabilities (31/12/2015: 84.3%). At the same time, the total capital of RSD 58.507,5 million participates in total liabilities in the amount of 14.3% (31/12/2015: 15.7%). Compared to the end of the previous year, total liabilities increased in RSD 21.045,9 million, or 6.4%, whereas total capital decreased in RSD 2.949,3 million, or 4.8%.

The item "deposits and other liabilities towards other clients" increased in the reporting period for RSD 19.836,9 million, or 6.6%, whereas the item "deposits and other liabilities to banks, other financial organisations and the central bank" increased in RSD 145, 3 million, or 0.9%, compared to the end of the previous year. The item "other liabilities" increased in RSD 751, 1 million, or 15.3%. Subordinated liabilities in the amount of EUR 50,0 million were withdrawn at the end of 2011 in order to increase regulatory capital.

In the first six months of 2016, the amount of foreign credit lines were reduced to net equivalent values in the amount of RSD 343,7 million, so that the balance of the relevant liabilities as of 30/06/2016, amounted to RSD 24.790,4 million.

Total deposits and other liabilities of banks, other financial organisations, the central bank and other clients amount to RSD 337.147,5 million in the structure of balance sheet liabilities, which is 82.2% of total balance sheet liabilities, recording, thus, an increase in RSD 19.982,2 million, or 6.3%, compared to the beginning of the year.

4.3. Loans Granted to Customers and Customers' Deposits as of 30/06/2016



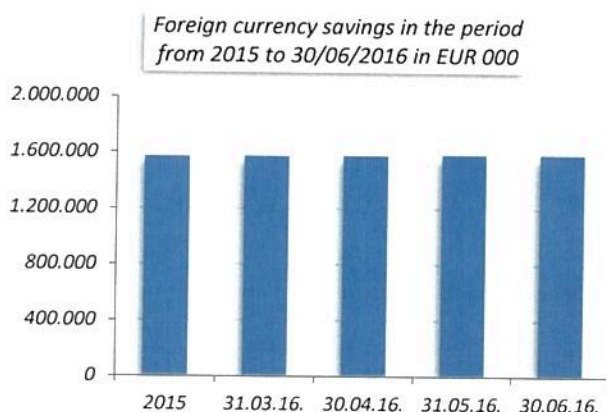
The most significant assets category, the loans granted (excluding other loans and receivables), recorded an increase in RSD 3,919.5 million, or 2.4%. Level of the loans, at the end of the first half of 2016, is under significant influence of placements to banks and other financial organisations, which, at the end of June, reached RSD 12,955.8 million, representing an increase of 133.3%. At the same time placements to corporate customers decreased by RSD 6,962.6 million, or 7.8%. Total loans to customers and banks, as of 30/06/2016, amounted to RSD 169,461.6 million, and increased compared to the end of the previous year by 2.4%.

(IN 000 RSD)				
No.	DESCRIPTION	BALANCE AS OF 30/06/2016	BALANCE AS OF 31/12/2015	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS GRANTED TO CUSTOMERS	169.461.589	165.542.078	102,37
1.	Corporate customers	82.241.658	89.204.275	92,19
2.	Retail customers	74.264.151	70.784.957	104,92
3.	Banks and financial organisations	12.955.780	5.552.846	233,32
II	DEPOSITS RECEIVED FROM CUSTOMERS (1.+2.+3.)	309.828.389	289.462.989	107,04
1.	Corporate customers	58.724.631	55.503.896	105,80
2.	Retail customers	226.039.019	218.836.847	103,29
3.	Banks and financial organisations	25.064.738	15.122.245	165,75

NOTE: The loans granted and deposits received according to the previous balance sheet form.

Change in deposits (excluding other liabilities and credit lines) in the first six months of 2016, is largely the result of an increase in deposits from banks, financial organisations and the central bank (RSD 9,942.5

million), the increase in retail customers' deposits (equivalent of RSD 7,202.2 million), and an increase in corporate customers' deposits (equivalent of RSD 3,220.7 million). In the previous six-month period, in the framework of these changes, retail customers' foreign currency savings increased by EUR 19.9 million.



Based on the reputation of a secure and stable bank on the Serbian market, the Bank, in the reporting period, succeeded in raising retail customers' foreign currency deposits by EUR 19.9 million, or 1.3%. Despite the present economic crisis, low average earnings, foreign currency savings increased in the first six months of 2016 and reached the amount of EUR 1,589.7 million.

The confidence of depositors has enabled the Bank to maintain a leading position in the banking sector of the Republic of Serbia with regards to its scope of foreign currency savings, image and recognisability.

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

(IN 000 RSD)

No.	DESCRIPTION	BALANCE AS OF 30/06/2016	BALANCE AS OF 31/12/2015	INDEX
1	2	3	4	5=(3:4)*100
I	OPERATIONS FOR AND ON BEHALF OF (commission operations)	4.447.055	4.444.445	100,06
II	POTENTIAL LIABILITIES	31.026.419	27.973.028	110,92
1	Payable guarantees	3.984.165	4.702.206	84,73
2	Performance bonds	6.649.649	6.453.308	103,04
3	Unused assumed liabilities	19.994.252	16.245.267	123,08
4	Other off-balance sheet items not classified	334.772	518.082	64,62
5	Uncovered letters of credit	63.581	54.165	117,38
III	OFF-BALANCE SHEET ITEMS NOT CLASSIFIED	544.713.271	547.989.736	99,40
1	Foreign currency savings bonds	1.853.660	2.774.418	66,81
2	Securities in depository	258.517.693	243.310.380	106,25
3	Other off-balance sheet items	284.341.918	301.904.938	94,18
	TOTAL (I+II+III)	580.186.744	580.407.210	99,96

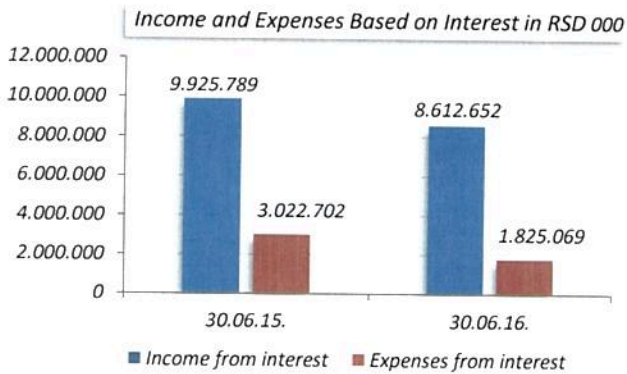
As of 30/06/2016, the total of potential off-balance sheet liabilities amounted to RSD 31,026.4 million - an increase in RSD 3,053.4 million, or 10.9%, compared to the end of the previous year, mainly due to unused assumed liabilities (RSD 3,749.0 million) and to a lesser extent, performance bonds.

5. INCOME STATEMENT FOR THE PERIOD FROM 01/01/2016 TO 30/06/2016

(IN 000 RSD)

No.	DESCRIPTION OF BALANCE SHEET ITEM	30/06/2016	30/06/2015	INDEX
1	2	3	4	5=(3:4)*100
	INCOME AND EXPENSES FROM ORDINARY OPERATIONS			
1.1.	Income from interest	8.612.652	9.925.789	86,77
1.2.	Expenses from interest	1.825.069	3.022.702	60,38
1.	Net income/expense based on interest	6.787.583	6.903.087	98,33
2.1.	Income from fees and commissions	2.961.541	2.896.747	102,24
2.2.	Expenses from fees and commissions	545.596	524.674	103,99
2.	Net income/expense based on fees and commissions	2.415.945	2.372.073	101,85
3.	Net profit/losses based on financial assets held for trading	28.102	2.036	1.380,26
4.	Net profit/loss based on hedging	-	-	-
5.	Net gain/loss based on financial assets which are initially recognized at fair value through income statement	-	-	-
6.	Net profit/loss based on financial assets available for sale	-50.727	11.856	-
7.	Net income/expense from exchange rate differences and the effects of foreign currency clause	1.199	13.219	9,07
8.	Net profit/loss based on investments in associated companies and joint ventures	-	-	-
9.	Other operating income	149.365	209.169	71,41
10.	Net income/expense based on impairment of financial assets and the credit risky off-balance sheet items	-6.246.223	-2.918.607	214,01
11.	TOTAL NET OPERATING INCOME	3.085.244	6.592.833	46,80
12.	TOTAL NET OPERATING EXPENSE			
13.	Salaries, fees and other personal expenses	2.163.940	2.058.986	105,10
14.	Depreciation costs	383.835	413.958	92,72
15.	Other expenses	3.183.019	3.423.579	92,97
16.	PROFIT BEFORE TAX		696.310	
17.	LOSS BEFORE TAX	2.645.550		
18.	Income tax	-	-	-
19.	Profit based on deferred taxes	-	-	-
20.	Loss based on deferred taxes	-	-	-
21.	PROFIT AFTER TAX		696.310	
22.	LOSS AFTER TAX	2.645.550		
23.	Net profit related to suspended operations	-	-	-
24.	Net loss related to suspended operations	-	-	-
25.	RESULT OF THE PERIOD - PROFIT		696.310	
26.	RESULT OF THE PERIOD - LOSS	2.645.550		
27.	Profit attributable to the parent entity	-	-	-
28.	Profit attributable to owners of non-controlling interests	-	-	-
29.	Loss attributable to the parent entity	-	-	-
30.	Loss attributable to owners of non-controlling interests	-	-	-
31.	Earnings per share	-	-	-
32.	Basic earnings per share	-	-	-
33.	Reduced (diluted) earnings per share	-	-	-

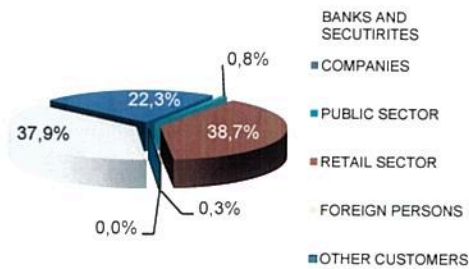
5.1. Income and Expenses Based on Interests



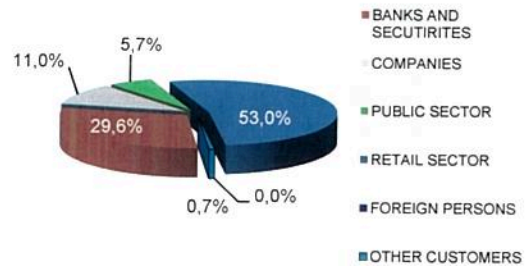
Income based on interest for the period 01/01 - 30/06/2016 amounted to RSD 6,787.6 million, which represents a decrease in 1.7%, compared to the same period last year.

Compared to the same period last year, income from interest decreased by RSD 1,313.1 million, or 13.2%, while expenses from interest decreased by RSD 1,197.6 million, or 39.6%.

Income from interest by sectors in 2016

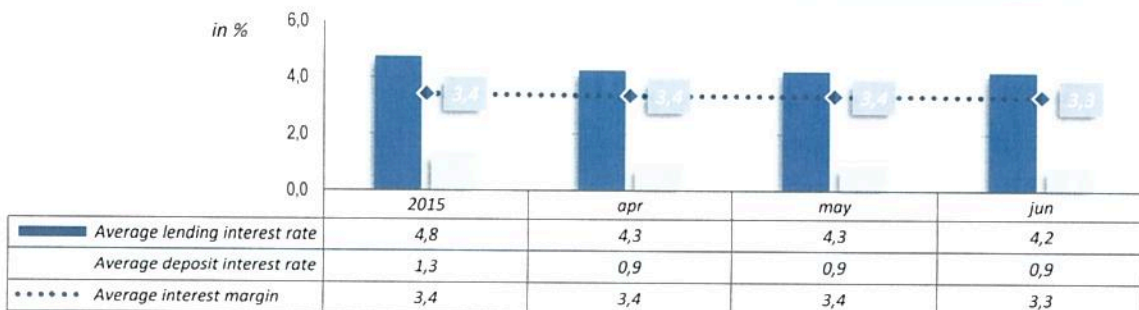


Expenses based on interest by sectors in 2016



Within income from interest, the largest share belongs to income from interest on retail operations (RSD 3,331.5 million, or 38.7%), while within interest expenses the interests on retail customers' deposits are dominating (RSD 966.4 million, or 53.0%) which is mainly the result of interest expense on the collected foreign currency savings of the retail customers.

The movement of the interest margin on total assets in %



The average lending interest rate at the end of the second quarter of 2016 was 4.2%, and the average deposit interest rate was 0.9%, so that the average interest margin of the Bank at the end of the second quarter of 2016 was 3.3%.

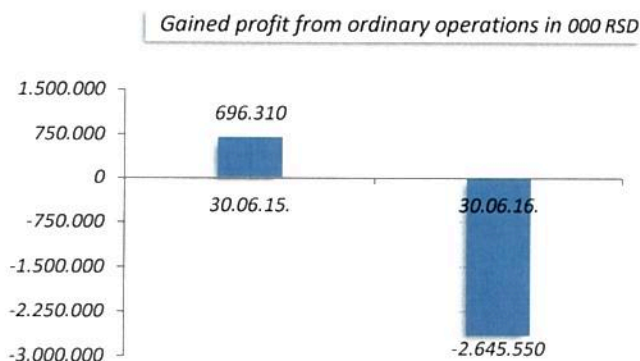
5.2. Income and Expenses Based on Fees



In comparison with the same period last year, income from fees and commissions for banking services increased by RSD 64.8 million, or 2.2%, while expenses based on fees and commissions increased by RSD 20.9 million, or 4.0%.

Net income based on fees and commissions for the first six months of 2016 amounted to RSD 2,415.9 million, and is higher by 1.8%, compared to the same period last year.

5.3. Gained Profit from Ordinary Operations



Due to the "cleansing" of non-performing loans through increased coverage of NPL allowances for impairment, during the last year, the Bank entered the year 2016 with a significantly higher quality loan portfolio. Due to the additional allowances for impairment of balance sheet assets and provisions for possible losses on off-balance sheet assets, the Bank, during the period from 1 January to 30 June 2016, recorded a loss from operations in the amount of RSD 2645.6 million. In the same period of the previous year, the Bank achieved a profit of RSD 696.3 million.

The process of arranging the loan portfolio and growth of allowances for impairment continued in the current year as well as preparation for the implementation of IFRS 9 influenced the business result of the Bank as of 30/06/2016.

INDICATORS AND RATIOS OF OPERATIONS PRESCRIBED BY THE LAW ON BANKS

NO.	DESCRIPTION	PRESCRIBED	30/06/2016	2015
1.	CAPITAL ADEQUACY INDICATOR (NET CAPITAL / CREDIT RISK + OPERATIONAL RISKS + OPEN FX POSITION)	MIN. 12%	23,04	22,70
2.	INDICATOR OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX. 60%	22,15	23,13
3.	INDICATOR OF THE BANK'S LARGE EXPOSURE	MAX. 400%	52,24	79,76
4.	FOREIGN EXCHANGE RISK RATIO	MAX. 20%	3,18	10,60
5.	LIQUIDITY RATIO	MIN. 0,8	2,86	2,73

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

A detailed outline of the main risks and threats to which the Bank will be exposed in the forthcoming period has been made in Chapter "Risk Management", Notes to the Financial Statements.

7. ALL MAJOR OPERATIONS WITH THE RELATED PARTIES

As of 30/06/2016, the following parties are related to the Bank:

1. Komercijalna banka a.d, Budva, Montenegro,
2. Komercijalna banka a.d, Banja Luka, Bosnia & Hercegovina,
3. KomBank Invest a.d. Beograd,
4. Four legal persons (Lasta doo Sombor, Menta doo Niš, GP Company doo Kraljevo, MM energo 2010 Užice) and a substantial number of natural persons, as per the provisions of Article 2 of the Law on Banks in the part governing the notion of the "parties related to the Bank".

The total exposure toward the related parties as of 30/06/2016 amounts to RSD 740.678,3 thousand, representing 1.88% of the capital of RSD 39.376.142 thousand (in accordance with the Law on Banks, the maximum value of total placements to all parties related to the Bank is 25% of the capital).

The largest part of exposure toward the related parties as of 30/06/2016, i.e. the amount of RSD 554.153,3 thousand, or 1.40%, of the Bank's capital represent placements to natural persons belonging to a group of related parties.

In accordance with Article 37 of the Law on Banks, the Bank has not granted loans to the parties related to the Bank under the conditions that are more favourable than those granted to other parties not related to the Bank.

A more detailed view of the Bank's relation with the related parties is shown in Chapter "Related Parties", Notes to the Financial Statements.

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

Upon completion of the semi-annual operation, one of the most important business events would be scheduling of the regular meeting of the Bank's Assembly for 26/07/2016 with the following Agenda proposal:

1. Adoption of the decision on the appointment of the Bank's external auditor for 2016.

Description of the events occurred after the date of the balance sheet is shown in point 6, Events after the balance sheet, Notes to the Financial Statements for the second quarter of 2016.

9. BASIC INFORMATION ON THE IMPLEMENTATION OF THE BUSINESS PLAN FOR 2016

Implementation of the Strategy and Business Plan for the first six months of 2016 took place within the following macroeconomic business conditions, including particularly the following:

-3.5% GDP growth in the first quarter of 2016, compared to the same period of the previous year (Statistical Office of the Republic of Serbia), the initial plan for the whole year is 1.8% growth (MF of the RS),

-Stable movement of the dinar exchange rate around 123 Dinars for Euro (planned Dinar-to-Euro exchange rate at the end of the year in course: 1 Euro = 122.50 Dinars (KB), and achieved on 30/06/2015: 1 euro = 123.3115 dinars),

-Inflation rate (YOY rate, June 2016/June2015): 0.3%) has a downward trend and is now below the target rate's lower limit for June of this year (4.0+/-1.5%) and 0,2 pp above the historical minimum, achieved in January 2015 (0.1% YOY).

In 2016 a GDP growth is expected primarily due to the relaxation of the monetary policy, improvements in the business environment, initiated structural adjustment, structural reforms, the recovery in external demand and investment growth. The original estimates for GDP for 2016 have been adjusted upward, the growth to 2.5%⁵, which is 0.7 percentage points more than the November estimates (1.8%). Yet in the first quarter of this year a GDP growth of 3.5% yoy rate was achieved due to the growth of processing and total industrial production. The growth has been made in the area of civil engineering, agriculture and services. A positive momentum to the banking business in the first three months of 2016 represented a release of part of the credit potential through a decrease of the contribution rate of foreign currency required reserves by 6 pp (September 2015 - February 2016). The current trends indicate that the country's macroeconomic prospects have improved, which caused intense economic recovery. Positive trends also reflect foreign direct investment which were in 2015 higher than the current balance of payments deficit and continued in the period January-April of the current year⁶. The estimate for this year provides for full coverage of the current deficit by foreign direct investments. The positive trends of recovery of the credit activity in the banking sector continue in this year as well. In May this year the real growth of domestic credits at the sector level was about 3.8%⁷ with a positive contribution of corporate and retail sectors. The structure is dominated by cash and refinancing loans, and they were in RSD currency. The monetary policy will continue to encourage credit activities to the extent permitted by the inflation key factors. In 2016 it is expected further recovery of credit activity, especially due to increased competition and increased demand for bank loans.

9.1. Planned and achieved balance Sheet Values for the Second Quarter of 2016

The total balance sheet assets at the end of the second quarter of 2016 amount to RSD 409.953,5 million, and compared to the planned value for the end of the year, increased by RSD 12.786,0 million, or 3.2%. Significant positive differences between the achieved and planned values are recorded in securities items, the achieved value is higher by RSD 12.009,3 million, or 9.2%, of loans and receivables to banks and other financial organisations, the achievement has increased by RSD 7.722,8 million, or 147.6% of planned amounts, cash and funds with the central bank, the achieved value is greater than the planned amount of RSD 2.504,7 million, or 4.2%.

The fall in achieved value compared to the planned value was recorded particularly in the item of corporate loans, i.e. a decrease in RSD 9.810,3 million (10.7%).

In the structure of the balance sheet liabilities a positive deviation from the planned values was achieved in the items of deposits (RSD 14.666,3 million, without other commitments and received credit lines), which was mostly contributed by the growth in deposits of banks and other financial organisations (RSD 16.166,0 million) and other liabilities (growth of RSD 5.481,7 million). A negative deviation was reported in the items of corporate deposits - a decrease in the amount of RSD 4.679,7 million.

A RSD exchange rate - depreciation (1.4% compared to EUR), has increased to a certain extent the difference between the achieved values and the planned values.

⁵ Current macroeconomic developments, June 2016, Ministry of Finance of RS

⁶ Current macroeconomic indicators, 27/06/2016, Ministry of Finance of RS

⁷ Macroeconomic developments in Serbia, July 2016, National Bank of Serbia

Achieved and planned items of the balance sheet assets and liabilities on 30/06/2016 are as follows:

(IN 000 RSD)				
No..	ITEM	Plan 31/12/2016	Achieved 30/06/2016	INDEX
1	2	3	4	5=4/3*100
ASSETS				
1.	Cash and assets held at the central bank	59.497.150	62.001.833	104,21
2.	Securities	130.629.026	142.638.291	109,19
3.	Granted loans and deposits (3.1.+3.2.+3.3.)	171.636.933	169.461.589	98,73
3.1.	Corporate customers	92.051.990	82.241.658	89,34
3.2.	Retail customers	74.352.000	74.264.151	99,88
3.3.	Banks and financial organisations	5.232.943	12.955.780	247,58
4.	Other assets	35.404.332	35.851.773	101,26
5.	TOTAL ASSETS (1.+2.+3.+4.)	397.167.441	409.953.486	103,22
LIABILITIES				
1.	Deposits	295.162.125	309.828.389	104,97
1.1.	Corporate customers	63.404.318	58.724.631	92,62
1.2.	Retail customers	222.859.000	226.039.019	101,43
1.3.	Banks and financial organisations	8.898.808	25.064.738	281,66
2.	Other liabilities	36.135.877	41.617.615	115,17
3.	Total liabilities (1.+2.)	331.298.003	351.446.003	106,08
4.	Total capital	65.869.439	58.507.482	88,82
5.	TOTAL LIABILITIES (3.+4.)	397.167.441	409.953.486	103,22

9.2. Planned and Achieved Income Statement Values for the Period 01/01/2016-30/06/2016

(IN 000 RSD)				
No.	ITEM	Plan 01/01-30/06/2016	Achieved 01/01-30/06/2016	INDEX
1	2	3	4	5=4/3
1.1.	Income from interest	8.515.406	8.612.652	101,14
1.2.	Expenses from interest	1.795.949	1.825.069	101,62
1.	Profit from interest (1.1.-1.2.)	6.719.457	6.787.583	101,01
2.1.	Income from fees and commissions	3.393.424	2.961.541	87,27
2.2.	Expenses from fees and commissions	619.000	545.596	88,14
2.	Profit from fees and commissions (2.1. -2.2.)	2.774.424	2.415.945	87,08
3.	Net exchange rate difference and change of value (currency clause)	50.000	1.199	2,40
4.	Other net operating incomes and expenses	299.000	-163.147	-54,56
5.	Net expenses/incomes from indirect write-off of placements and provisions	-1.908.000	-6.246.223	327,37
6.	Operational expenses	5.357.000	5.440.907	101,57
7.	PROFIT FROM REGULAR OPERATIONS	2.577.881	-2.645.550	-102,62

In the income statement items a significant deviation has been recorded with the net expenses of indirect placement impairment (achieved value is higher than the planned by RSD 4.338,2 million) and profit from fees and commission (achieved value is lower than the planned by RSD 358,5 million).

Operational expenses in the same period are higher than the planned by RSD 83,9 million. The profit from interest is higher than the planned by RSD 68,1 million. Upon completed calculation of the credit portfolio impairment and the increase of net expenses from indirect placement and provision impairment for off-balance sheet items in June this year, the Bank recorded a loss before tax in the amount of RSD 2.645,6 million.

Signed on behalf of Komercijalna banka a.d. Beograd:

A handwritten signature in blue ink is written over a horizontal line. A blue circular stamp is positioned behind the signature, partially overlapping the line. The stamp contains the text "KOMERCIJALNA BANKA BEGRAD" around the perimeter and a small number "4" in the center.

BALANCE SHEET

on 30.06.2016.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year amount	Previous year amount
1	2	3	4
ASSETS			
Cash and balances with central banks	0001	62.001.833	63.523.715
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	873.259	851.056
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	141.765.031	127.173.383
Financial assets held to maturity	0006	-	-
Loans and advances to banks and other financial institutions	0007	26.487.270	16.844.000
Loans and advances to clients	0008	158.089.978	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	359.948	216.830
Property, plant and equipment	0014	6.000.108	6.139.572
Investment property	0015	2.717.557	2.744.026
Current tax assets	0016	-	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	5.895.464	6.040.483
TOTAL ASSETS (from 0001 to 0019)	0020	409.953.486	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	17.304.634	17.159.317
Deposits and other liabilities to other clients	0405	319.842.828	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	6.165.502	6.077.962
Provisions	0409	2.127.130	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	334.416	127.545
Other liabilities	0413	5.671.494	4.920.368
TOTAL LIABILITIES (from 0401 to 0413)	0414	351.446.004	330.400.115
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	5.962	179.550
Loss	0418	2.645.550	6.299.631
Reserves	0419	21.112.520	27.542.265
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	58.507.482	61.456.734
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	409.953.486	391.856.849



from 01.01.2016 to 30.06.2016

INCOME STATEMENT

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.-30.06.
1	2	3	4	5	6
Interest income					
Interest expenses	1001	4.314.398	8.612.652	4.836.904	9.925.789
Net interest profit (1001-1002)	1002	907.146	1.825.069	1.394.798	3.022.702
Net interest loss (1002-1001)	1003	3.407.252	6.787.583	3.442.106	6.903.087
Fee and commission income	1004	-	-	-	-
Fee and commission expenses	1005	1.555.605	2.961.541	1.491.871	2.896.747
Net fee and commission income (1005 - 1006)	1006	303.985	545.596	263.698	524.674
Net fee and commission expenses (1006 - 1005)	1007	1.251.620	2.415.945	1.228.173	2.372.073
Net gains on financial assets held for trading	1008	-	-	-	-
Net loss on financial assets held for trading	1009	10.003	28.102	2.152	2.036
Net gains from risk protection	1010	-	-	-	-
Net loss from risk protection	1011	-	-	-	-
Net gains on financial assets that are initially recognized at fair value through profit or loss	1012	-	-	-	-
Net losses on financial assets that are initially recognized at fair value through profit or loss	1013	-	-	-	-
Net profit from sale of securities	1014	-	-	-	-
Net loss from sale of securities	1015	-	-	21.783	11.856
Net income from foreign exchange differences and effects of contracted foreign currency clause	1016	7.430	50.727	-	-
Net foreign exchange losses and the effects of contracted foreign currency clause	1017	25.604	1.199	-	13.219
Net gains on investments in associates and joint ventures	1018	-	-	18.538	-
Net loss on investments in associates and joint ventures	1019	-	-	-	-
Other operating income	1020	-	-	-	-
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1021	79.091	149.365	104.889	209.169
Net impairment losses of financial assets and off-balance sheet credit risk items	1022	-	-	-	-
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1023	5.754.124	6.246.223	1.527.063	2.918.607
NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1024	-	3.085.244	3.253.502	6.592.833
Salaries, wages, and other personnel indemnities	1025	987.984	-	-	-
Depreciation costs	1026	1.111.256	2.163.940	1.055.360	2.058.986
Other expenses	1027	197.918	383.835	207.857	413.958
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1028	1.751.400	3.183.019	1.501.907	3.423.579
LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1029	-	-	488.378	696.310
Tax on profit	1030	4.048.558	2.645.550	-	-
Deffered tax income for the period	1031	-	-	-	-
Deffered tax expense for the period	1032	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1033	-	-	-	-
LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1034	-	-	488.378	696.310
NET PROFIT OF DISCONTINUED OPERATIONS	1035	4.048.558	2.645.550	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1036	-	-	-	-
NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1037	-	-	-	-
NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1038	-	-	488.378	696.310
Net profit which belongs to owners of parent legal entity	1039	4.048.558	2.645.550	-	-
Net profit which belongs to minority investors	1040	-	-	-	-
Net loss which belongs to owners of parent legal entity	1041	-	-	-	-
Net loss which belongs to minority investors	1042	-	-	-	-
Earnings per share	1043	-	-	-	-
Basic earnings per share (in RSD, rounded)	1044	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1045	-	-	-	-

Column 3 for 1. quarter 01.01.-31.03. 2. quarter 01.04.-30.06. 3. quarter 01.07.-30.09.
Column 4 for 1. quarter 01.01.-31.03. 2. quarter 01.01.-30.06. 3. quarter 01.01.-30.09.



REPORT ON OTHER FINANCIAL RESULT

from 01.01.2016 to 30.06.2016.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06	01.04.-30.06.	01.01.-30.06
1	2	3	4	5	6
PROFIT FOR THE PERIOD	2001	-	-	488.378	696.310
LOSS FOR THE PERIOD	2002	4.048.558	2.645.550	-	-
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	25.736	322.158	44.986	279.564
Unrealized losses arising from securities available for sale	2010	238.807	608.291	187.031	83.710
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	-	-	-	195.854
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	213.071	286.133	142.045	-
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	-	-	346.333	892.164
TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0	2022	4.261.629	2.931.683	-	-
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. квартал 01.01 - 31.03. 2. квартал 01.04 - 30.06. 3. квартал 01.07 - 30.09.
Coloumn 4 for 1. квартал 01.01 - 31.03. 2. квартал 01.01 - 30.06. 3. квартал 01.01 - 30.09.



from 01.01.2016 to 30.06.2016

CASH FLOW STATEMENT

(in RSD thousand)

POSITION	ADP code	Amount	
		01.01.-30.06.2016.	01.01-30.06.2015.
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflows from operating activities (from 3002 to 3005)			
1. Inflows from Interest	3001	12.755.382	13.357.191
2. Inflows from allowances	3002	9.654.560	10.345.268
3. Inflows from other operating income	3003	2.991.470	2.915.302
4. Inflows from dividends and participation in profit	3004	98.176	95.528
	3005	11.176	1.093
II. Cash outflows from operating activities (from 3007 to 3011)			
5. Outflows from interest	3006	7.309.045	8.176.716
6. Outflows from allowances	3007	1.868.054	2.649.023
7. Outflows from gross salaries, wages and other personnel indemnities	3008	546.620	530.068
8. Outflows from taxes, contributions and other obligations from income	3009	2.008.476	1.933.917
9. Outflows from other operating expenses	3010	354.924	381.035
	3011	2.530.971	2.682.673
III. Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)	3012	5.446.337	5.180.475
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	20.214.492	31.512.825
10. Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	-	26.629.094
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	2.566.003	4.883.731
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	17.648.489	-
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	3.456.662	17.455.202
16. Increase in loans and advances to banks, other financial institutions, central bank and other clients	3022	3.456.662	-
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	-	17.455.202
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	22.204.167	19.238.098
VIII. Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	-	2.424
23. Dividends paid	3031	119.477	403
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	22.084.690	19.235.271
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (od 3035 do 3039)			
1. Inflows from long-term investment in securities	3034	25.867.180	16.397.698
2. Inflows from sale of investments in subsidiaries and associates and joint ventures	3035	25.867.131	16.392.203
3. Inflows from sale of intangible assets, property, plant and equipment	3036	-	-
4. Inflow of sale of investment property	3037	49	5.495
5. Other inflows from investing activities	3038	-	-
	3039	-	-
II. Cash outflows from investing activities (from 3041 to 3045)			
6. Outflows from investment in long-term securities	3040	43.294.329	29.766.440
7. Outflows from purchase of investments in subsidiaries and associates and joint ventures	3041	42.923.906	29.603.790
8. Outflows from purchase of sale of intangible assets, property, plant and equipment	3042	-	-
9. Outflows from purchase of investment property	3043	370.423	162.650
10. Other outflows from investing activities	3044	-	-
	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV. Net cash outflow from investing activities (3040 - 3034)	3047	17.427.149	13.368.742
B. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 3049 to 3054)			
1. Inflows from capital increase	3048	64.883.968	54.562.582
2. Cash inflows from subordinated obligations	3049	-	-
3. Cash inflows from loans received	3050	-	-
4. Inflows from securities	3051	64.883.968	54.562.582
5. Inflows from sale of own shares	3052	-	-
6. Other inflows from financing activities	3053	-	-
	3054	-	-
II. Cash outflows from financing activities (from 3056 to 3060)			
7. Outflows from purchase of own shares	3055	65.286.456	56.408.230
8. Cash outflows from subordinated obligations	3056	-	-
9. Cash outflows from loans received	3057	-	-
10. Cash outflows from securities	3058	65.286.456	56.408.230
11. Other outflows from financing activities	3059	-	-
	3060	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV. Net cash outflow from financing activities (3055 - 3048)	3062	402.488	1.845.648
Г. TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3063	123.721.022	115.830.296
Д. TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	119.465.969	111.809.415
Ђ. NET INCREASE IN CASH (3063 - 3064)	3065	4.255.053	4.020.881
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	159.607	168.298
И. LOSS ON EXCHANGE	3069	-	-
Ј. CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3070	40.642.324	49.348.358



STATEMENT OF CHANGES IN EQUITY

from 01.01.2016 to 30.06.2016

ITEM	2		3		4		5		6		7		8		9		10		11	
	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 126)	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 2-10)	ADP code	Total (column 2-11)
Opening balance as of January 1st of preceding year	4001	17.191.466	4029		4113	22.843.064	4005	20.635.440	4113	2.351.085	4127	230.126	4141	6.759.855	4175	0	4209	69.546.804	4215	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4114		4086		4128		4128	4142		4176						
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4115		4087		4129		4129	4143		4177						
Adjusted opening balance as of January 1st of preceding year (number 1+2+3)	4004	17.191.466	4032		4116	22.843.064	4088	20.635.440	4116	2.351.085	4130	230.126	4144	6.759.855	4178	0	4210	69.546.804	4216	
Total positive other result for the period					4117				4117	43.684.4131		2.182								
Total negative other result for the period					4118				4118											
Loss for the year												4145			6.299.631					
Transfer from reserves to result due to release of reserves – increase												4146			4.180					
Transfer from reserves to result due to release of reserves – decrease												4147			4.191					
Transactions with owners, recorded directly in equity – increase	4005		4033		4109		4089		4109			4148								
Transactions with owners, recorded directly in equity – decrease	4006		4034		4100		4090		4100			4149								
Profit distribution – increase	4007		4035		4101		4091	4.300.000	4101			4150								
Profit distribution – decrease	4008		4036		4102		4092		4102			4151			4.300.000					
Dividend payments	4009		4037		4103		4093		4103			4152			1.962.751					
Other – increase	4010		4038		4104		4094		4104			4153			33.446					
Other – decrease	4011		4039		4105		4095		4105			4154			347.000					
Total transactions with owners (number 11-12+13-14-15+16-17)	4012		4040		4106		4096	4.300.000	4106			4155			4.189					
≥ 0	4013		4041		4107		4097		4107			4156			6.576.306					
< 0	4014		4042		4108		4098		4108			4157			179.550					
Balance as of December 31st of preceding year (number 4+5-6+7+8+9-10+11-12+13-14-15+16-17)	4015	17.191.466	4043	0	4109	22.843.064	4099	24.935.440	4109	2.834.789	4133	227.844	4157	179.550	4.211	6.299.631	4.211	61.456.734	4.217	
Opening balance as of January 1st of the current year	4016	17.191.466	4044		4110		4100		4110			4158			179.550					
Correction of material misstatement and changes to accounting policies in preceding year – increase	4017		4045		4111		4101		4111			4159								
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4018		4046		4112		4102		4112			4160								
Adjusted opening balance as of January 1st of the current year (number 21+22+23)	4019	17.191.466	4046	0	4113	22.843.064	4102	24.935.440	4113	2.834.789	4137	227.844	4161	179.550	4.213	6.299.631	4.213	61.456.734	4.219	
Total positive other result for the period					4124				4124	322.158	4138									
Total negative other result for the period					4125				4125		608.291									
Loss for the year												4162			2.645.550					
Transfer from reserves to result due to release of reserves – increase												4163			4.197					
Transfer from reserves to result due to release of reserves – decrease												4164			4.196					
Transactions with owners, recorded directly in equity – increase	4019		4047		4103		4099		4103			4165								
Transactions with owners, recorded directly in equity – decrease	4020		4048		4104		4104		4104			4166								
Profit distribution – increase	4021		4049		4105		4105		4105			4167								
Profit distribution and/or loss coverage – decrease	4022		4050		4106		4106	8.143.612	4106			4168			156.019					
Dividend payments	4023		4051		4107		4107		4107			4169			23.531					
Other – increase	4024		4052		4108		4108		4108			4170			5.962					
Other – decrease	4025		4053		4109		4109		4109			4171			4.205					
Total transactions with owners (number 31-32+33-34-35+36-37)	4026		4054		4110		4110	0	4110			4172			4.208					
≥ 0	4027		4055		4111		4111	6.143.612	4111			4173			173.588					
< 0	4028		4056	0	4112		4112	18.791.808	4112	3.156.027	4.140	836.235	4174	5.962	4.208					
Balance as of March 31st of the current year (number 24+25-26+27+28+29+30+31-32+33-34-35+36-37)		17.191.466	4056			22.843.064	4112	18.791.808	4112	3.156.027	4.140	836.235	4174	5.962	4.208					
Balance as of March 31st of the current year (number 24+25-26+27+28+29+30+31-32+33-34-35+36-37), for the column 7 (number 24+26-25)																				



NOTES

TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER OF 2016

Belgrade, August 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 30.06.2016, 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 30 June 2016 the Bank is consisted of the Head Office in Belgrade located at 14, Svetog Save Street, 24 branches and 208 sub-branches.

As of 30 June 2016 the Bank had 2,907 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) 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 – June 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). 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 30 June 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):

ASSETS	30.06.2016.		In RSD thousand 31.12.2015.	
	Amount	%	Amount	%
Cash and cash funds held with the central bank	62,001,833	15.12	63,523,715	16.21
Financial assets at fair value through profit and loss, held for trading	873,259	0.21	851,056	0.22
Financial assets available for sale	141,765,031	34.58	127,173,383	32.45
Financial assets held to maturity	-	-	-	-
Loans and receivables due from banks and other financial institutions	26,487,270	6.46	16,844,000	4.30
Loans and receivables from customers	158,089,978	38.57	162,742,565	41.53
Investment in subsidiaries	5,480,888	1.34	5,480,888	1.40
Intangible assets	359,948	0.09	216,830	0.06
Property, plant and equipment	6,000,108	1.46	6,139,572	1.57
Investment property	2,717,557	0.66	2,744,026	0.70
Current tax assets	-	-	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	5,895,464	1.44	6,040,483	1.54
TOTAL ASSETS	409,953,486	100.00	391,856,849	100.00

LIABILITIES	30.06.2016.		31.12.2015.	
	Amount	%	Amount	%
Deposits and other liabilities due to banks, other financial organizations and the central bank	17,304,634	4.22	17,159,317	4.38
Deposits and other liabilities due to other customers	319,842,828	78.03	300,005,903	76.56
Subordinated liabilities	6,165,502	1.50	6,077,962	1.55
Provisions	2,127,130	0.52	2,109,020	0.54
Deferred tax liabilities	334,416	0.08	127,545	0.03
Other liabilities	5,671,494	1.38	4,920,368	1.26
Equity	58,507,482	14.27	61,456,734	15.68
TOTAL LIABILITIES	409,953,486	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:

	30.06.2016.		30.06.2015.	
	Total	Total	Total	Total
INCOME				
Interest income	8,612,652		9,925,789	
Fee and commission income	2,961,541		2,896,747	
Net gains on the financial assets held for trading	28,102		2,036	
Net gains on financial assets available for sale	-		11,856	
Net income from foreign exchange differentials and the effects of agreed currency clause	1,199		13,219	
Other operating income	149,365		209,169	
EXPENSES				
Interest expense	1,825,069		3,022,702	
Fee and commission expense	545,596		524,674	
Net loss from financial assets intended for trading	-		-	
Net loss from financial assets available for sale	50,727		-	
Net expense from exchange rate differentials and the effects of agreed currency clause	-		-	
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	6,246,223		2,918,607	
Cost of salaries, allowances and other personnel expenses	2,163,940		2,058,986	
Depreciation cost	383,835		413,958	
Other expenses	3,183,019		3,423,579	
Result of the period (profit)	(2,645,550)		696,310	

CASH FLOW STATEMENT

In thousand RSD

Item	30.06.2016.	30.06.2015.
	Total	Total s
Cash inflows from operating activities	12,755,382	13,357,191
Inflow from interest	9,654,560	10,345,268
Inflow from fees	2,991,470	2,915,302
Inflow from other operating activities	98,176	95,528
Inflow from dividends and share in profit	11,176	1,093
Cash outflows from operating activities	7,309,045	8,176,716
Interest payments	1,868,054	2,649,023
Fee payments	546,620	530,068
Payments for gross salaries, allowances and other personnel expenses	2,008,476	1,933,917
Taxes, contributions and other duties charged to income	354,924	381,035
Payments for other operating expenses	2,530,971	2,682,673
Net cash inflow from operating activities before increase or decrease in loans and deposits	5,446,337	5,180,475
Decrease in lending and increase in deposits and other liabilities	20,214,492	31,512,825
Decrease in loans and receivables from banks, other financial organisations, the central bank and customers	-	26,629,094
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	2,566,003	4,883,731
Increase in deposits and other liabilities to banks, other financial organisations, the central bank and customers	17,648,489	-
Increase in lending and decrease in received deposits and other liabilities	3,456,662	17,455,202
Increase in loans and receivables from banks, other financial organisations, the central bank and customers	3,456,662	-
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	-	17,455,202

In thousand RSD

Item	30.06.2016.	30.06.2015.
	Total	Total
Net inflow of cash from operating activities before profit tax	22,204,167	19,238,098
Net outflow of cash from operating activities before profit tax	-	-
Paid profit tax	-	2,424
Paid dividends	119,477	403
Net inflow of cash from operating activities	22,084,690	19,235,271
Net outflow of cash from operating activities	-	-
Cash inflow from investment activities	25,867,180	16,397,698
Inflow from investment securities	25,867,131	16,392,203
Inflow from sales of intangible assets, property, plants and equipment	49	5,495
Cash outflow from investment activities	43,294,329	29,766,440
Outflow for investing in investment securities	42,923,906	29,603,790
Outflow for purchase of intangible assets, property, plants and equipment	370,423	162,650
Outflow for purchase of investment property	-	-
Net outflow of cash from investment activities	17,427,149	13,368,742
Cash inflow from financing activity	64,883,968	54,562,582
Inflow from borrowings	64,883,968	54,562,582
Cash outflow from financing activity	65,286,456	56,408,230
Outflow from borrowings	65,286,456	56,408,230
Net outflow of cash from financing activity	402,488	1,845,648
Total cash inflow	123,721,022	115,830,296
Total cash outflow	119,465,969	111,809,415
Net increase in cash	4,255,053	4,020,881
Net decrease in cash	-	-
Cash and cash equivalents at the start of the year	36,227,664	45,160,177
Exchange rate gains	159,607	168,298
Exchange rate loss	-	-
End of period cash and cash equivalents	40,642,324	49,349,356

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 – June 2016 amounts to RSD 6,787,583 thousand and is higher by RSD 115,504 thousand, or 1,67%, 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 – June 2016 amounts to RSD 2,415,945 thousand and is higher compared to the same period 2015 by 1.85% or RSD 43,872 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 28,102 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 50,727 thousand (RS bonds and T-bills and foreign entities' bonds).

Gains/losses based on contracted currency clause and changes in the exchange rate of the securities available for sale, and interest income under the securities available for sale are shown within the Income Statement.

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

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

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

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

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

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

Net income from exchange rate differentials in the reporting period January – June 2016 amount to RSD 1,199 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 149,365 thousand, the other operating revenues account for the largest share - 59.02 % (in the last year 43.12 %), which mainly refer to the income from renting the real estate amounting to RSD 47,884 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 42,000 thousand.

Dividends received from investment in shares of other legal entities in the amount of RSD 11,176 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 6,246,223 thousands, while in the same period 2015 they amounted to RSD 2,918,607 thousand and were lower by RSD 3,327,616 thousand or 2.1 times compared to 30.06.2015. 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 2,163,940 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, increase in the price of labour of 2.2% that is used to calculate salaries, as of April, and the increase in the average salary in the Republic of Serbia which is the basis for calculating meal allowance, holiday pay and contributions of 4.0% compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 383,835 thousand are lower compared to the period January – June 2015 by RSD 30,123 thousand or 7.28%, 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 3,183,019 thousand and are lower year-on-year by RSD 240,560 thousand or 7.03%. Other costs consist of operating expenses, cost of provisions for court disputes and other expenses.

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

a) Operating expenses in the total amount of 2,893,132:

- costs of production services in the amount of RSD 991,159 thousand of which the largest amounts come from: rental costs for office space, equipment and advertising space in the amount of RSD 340,873 thousand, costs of managing and maintaining ATMs and POS terminals and equipment for payment cards amounting to RSD 161,468 thousand, costs of maintenance of information equipment and software in the amount of RSD 108,841 thousand, costs of advertising and marketing amounting to RSD 91,753 thousand and the cost of rental of equipment for printing services in the amount of RSD 53,593 thousand.
- intangible costs totalling RSD 1,289,512 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 767,158 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 179,978 thousand

Operating expenses in the current period are lower year-on-year by RSD 21,719 thousand.

b) Other expenses of RSD 219,098 thousand:

The cost of interest from lost court disputes from the past period account for the largest share of the total amount of other expenses i.e. RSD 123,525 thousand dinars (reference - note 3.18).

Compared to the same period 32015, they are lower by RSD 110,783 thousand, given that in the same period last year this item included the adjusted interest from previous years as a result of the RS Government decree on reducing interest on housing loans indexed in CHF and correction of interest from previous years for loans to legal entities for clients that were undergoing pre-packaged reorganization plan. In the current period the Bank did not incur expenses for this. In the same period last year, other expenses amounted to RSD 329,881 thousand.

BALANCE SHEET

Balance sheet total as of 30.06.2016 amounts to RSD 409,953,486 thousand, which in comparison to 31.12.2015 represents an increase of RSD 18,096,637 thousand or 4.62%. The increase came mostly as a result of increase in the item loans and receivables from banks and other financial organisations on the assets side and an increase in deposits by 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 45.02% (2015: 45.83%), financial assets available for sale with a share of 34.58% (2015: 32.45%), cash and funds at the central bank with a share of 15.12% (2015: 16.21%), property, plant and equipment with a share of 1.46% (2015: 1.57%) and investment in subsidiaries of 1.34% (2015: 1.40%).

3.10. Cash and Funds with the Central Bank

Cash and assets with the central bank as of 30.06.2016 amount to RSD 62,001,833 thousand, and account for 15.12% of Bank's total assets (16.21 % as of 31.12.2015). Compared to 31.12.2015 the position is decreased by RSD 1,521,882 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.

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

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

Investment in securities at fair value in the amount of RSD 873,259 thousand and financial assets available for sale in the amount of RSD 141,765,031 thousand together make up a percentage of share of 34.79% of total assets (2015: 32.67%); they increased compared to 2015 by RSD 14,613,851 thousand. The achieved increase almost entirely relates to investments in financial assets available for sale in the amount of RSD 14,591,648 thousand.

In the structure of dinar financial assets available for sale as of 30.06.2016, the largest share is that of the bonds of the Republic of Serbia of 73.37%, then T-bills of the Republic of Serbia with 26.63%. When it comes to securities in foreign currency, these are made up of bonds of the Republic of Serbia (89.35%), T-bills of the Republic of Serbia is 8.84% and bonds by foreign banks and countries in the amount of 1.81%.

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 revalored in accordance with the specific agreement for each loan. The difference between the nominal value of outstanding principal and the revalored 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 30.06.2016 loans and receivables from banks and other financial organizations amount to RSD 26,487,270 thousand with percentage of share of 6.46% of total assets (2015: RSD 16,844,000 thousand) and are higher by RSD 9,643,270 thousand. Increase from 31.12.2015 came mostly as a result of increase of: repo investments by 3,800,000, short-term liquidity loans to other banks, in the amount of 6,000,000 thousand dinars and deposits to banks in foreign currency up to seven days in the amount of RSD 1,686,258. Other items recorded net decrease in the amount of RSD 1,842,988 thousand.

Loans and receivables from customers as of 30.06.2016 amount to RSD 158,089,978 thousand with a percentage of share of 38.56% of total assets (2015: 162,742,565 thousand) and have predominant share in asset structure. Total loans to customers are lower by RSD 4,652,587 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, plant and equipment in the amount of 1.46%, other assets 1.44% and investment property in the amount of 0.66%.

Receivables from court disputes in the amount of RSD 209,085 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 30.06.2016 amount to RSD 1,329,742 thousand (gross amount, excluding impairment allowance), of which stake in the equity of foreign entities amounts to RSD 734,437 thousand and these are stakes in the companies Master and Visa International.

LIABILITIES

In the period January - June 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 82.25% (2015: 80.94%) of total liabilities. Share of capital in total liabilities equals 14.27% (2015:15.68%).

Other items account for 3.48% of total liabilities, with the largest part of this item being subordinated liabilities with a percentage of 1.50%.

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 319,842,828 thousand thus accounting for 78.03% 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 17,304,634 thousand with a share of 4.22% (2015: 4.38%).

When compared to 2015 the total increase in deposits is RSD 19,982,242 thousand: transaction deposits are higher by RSD 16,425,807 thousand, while all other deposits recorded an increase in the amount of RSD 3,556,435 thousand.

Net increase in transaction deposits resulted from an increase in RSD transaction deposits of RSD 17,454,902 thousand while the transaction deposits in foreign currency recorded a decrease from 31.12.2015 of 1,029,094. The structure of transaction deposits is still dominated by deposits in local currency with share of 68.49%, whereas the remaining 31,51% are deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 90.64% while dinar deposits account for 9.36%. FX savings increased EUR 19 million.

Borrowings

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 24,906,243 thousand and with a percentage of share in total liabilities of 6.08% it recorded a reduction relative to 2015 in the amount of RSD 336,646 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 4,754,891 thousand)
2. GGF (RSD 810,773 thousand)
3. FMO (RSD 1,644,153 thousand)
4. IFC (RSD 1,849,673 thousand)
5. EBRD (RSD 4,756,301 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 36,426 thousand,
2. Government of the Republic of Italy – RSD – 558,498 thousand,
3. European Investment Bank (EIB) – RSD 5,939,316 thousand,
4. European Agency for Reconstruction (EAR) – RSD 240,310 thousand,
5. KfW – RSD 4,315,903 0 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 June 30th, 2016 amount to RSD 6,165,502 thousand and they comprise the subordinated loan in dinar equivalent of EUR 50,000 thousand or RSD 6,165,575 thousand reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 12,656 thousand and accrued liabilities from interest of RSD 12,583 thousand. The loan was approved with a maturity date of 15 December 2017.

3.17. Provisions

The Bank's provisions in the amount of RSD 2,127,130 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 18,110 thousand.

Net increase came as a result of the increase in provisions for court disputes by RSD 70,790 thousand and a decrease of provisions for losses in off-balance-sheet assets of RSD 52,680.

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 significant changes in the total level of these provisions, in the amount of RSD 70,790 thousand recognized in the profit and loss account charged against the cost of provisions for court disputes, as a result of an increase in provisions for the existing disputes and allocation of provisions for new cases. For a total of eighteen cases as of 30.06.2016, a provision of RSD 1,265,664 was made.

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 949,255 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 1,043 thousand for the principal and USD 962 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.

The second instance decision of the Commercial Court of Appeal No. Pz 919/15 of 05.05.2016, the previous decision of the Commercial Court in Belgrade from 2015 was revised. According to the new decision, the Bank is obliged to calculate and pay interest for the period between 01.01.2005 and 29.10.2013, which it had not been obliged to do according to the previous decision. Interest was accrued for this, in the amount of USD 2,104 thousand or RSD 122,670 thousand and was recorded on the item of other liabilities arising from lost court disputes. The Bank has filed a complaint to the amount of interest liability for the account period between 01.01.2005 and 29.10.2013.

- Provision for the performance guarantee concluded with the Privatisation Agency (case of VektraM d.o.o. Beograd) in the amount of RSD 214,491 thousand for interest. The contract concerns the sale of the socially-owned capital of DP Župa concluded on 13 January 2004 between the Privatisation 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 fifteen court disputes, in the total amount of RSD 101,918 thousand.

3.18. Other liabilities

Other liabilities amount to RSD 5,671,494 thousand and compared to 2015 are higher by RSD 751,871 thousand. Percentage share of other liabilities in the total liabilities is 1.38% (2015: 1.26%). The most important items in other liabilities are liabilities from profit RSD 2,490,769 thousand, liabilities from purchase and sale of foreign currency from banks in the amount of RSD 924,836 thousand, other liabilities from SPOT transaction of RSD 281,804 thousand, liabilities for net salaries charged against expenses in the amount of RSD 243,102 thousand, liabilities from closed accounts by clients deleted at the competent register in the amount of RSD 135,961 thousand and liabilities from received court decisions in the amount of RSD 122,670 thousand (reference - note 3.17).

On 27.07.2015 the Bank received the judicial decision of the Court of Appeal in the legal matter of the plaintiff „Interexport“, Bankruptcy estate from Belgrade, according to which Komercijalna banka is obligated to pay to the plaintiff, on the grounds of arrangement with the National Bank of Cuba, the amount of CAD 2,995,475.00 with the interest of domicile country from 06.01.1990 until 24.12.2012 and from 25.12.2012 until disbursement according to the provisions of the Law on Default Interest Rate.

The Bank included the calculated liabilities arising from the received court decision in the amount of RSD 600,000 thousand.

On 19.10.2015, the National Bank of Serbia conducted the forced collection in favour of plaintiff in the amount of RSD 560,837 thousand (details as per each item in Note 6).

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.

As at 30.06.2016 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	18,791,828	24,935,440
Revaluation reserves	3,077,776	2,755,618
Unrealized losses based on securities available for sale	(836,235)	(227,944)
Actuarial gain	79,151	79,151
Reserves	21,112,520	27,542,265
Accumulated profit	5,962	179,550
Loss	(2,645,550)	2,755,618
Balance as at date	58,507,482	61,456,734

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.

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.

In accordance with the Decision of the General Meeting of Shareholders No. 9520/3d of 24.05.2016, a portion of retained earnings from previous years was distributed into dividends for preference shares in the amount of RSD 23,531 thousand (interest rate on savings fixed to 12 months applied and amounted 6.30%)

In accordance with the Decision of the General Meeting of Shareholders, passed at the same session on 24.05.2016, loss from 2015 was covered in the amount of RSD 6,299,631 thousand by being charged against a portion of retained earnings from previous years of RSD 156,019 thousand and against reserves from the Bank's profit for estimated losses in balance-sheet assets of RSD 6,143,612 thousand.

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 30 June 2015, calculated on the basis of the financial statements, equals 23.04% 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 30.06.2016 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 30.06.2016 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	0.77
UNICREDIT BANK Serbia – custody account 2	0.76
STANKOM CO DOO BEOGRAD	0.70
EAST CAPITAL (lux) EASTERN E	0.52
ERSTE BANK a.d. Novi Sad	0.51
Other	8.28
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as of 30.06.2016

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	6,715	927	-	-	7,642	-	7,642
2. Kom.banka AD Banja Luka	193,775	2	1,749	-	195,526	369,935	565,461
3. Kombank INVEST	-	106	-	-	106	200	306
TOTAL:	200,490	1,035	1,749	-	203,274	370,135	573,409

LIABILITIES

In thousand RSD

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Budva	539,700	-	1,722	541,422
2. Kom.banka AD Banja Luka	119,559	-	-	119,559
3. Kombank INVEST	79	-	-	79
TOTAL:	659,338	-	1,722	661,060

INCOME AND EXPENSES for period 01.01 – 30.06.2016.

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	49	1,300	-	(1,054)	295
2. Kom.banka AD Banja Luka	2,695	959	-	(364)	3,290
3. Kombank INVEST	-	521	(2)	-	519
TOTAL:	2,744	2,780	(2)	(1,418)	4,104

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 15,271 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.- 30.06.2015.

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)	108
2. Kom.banka AD Banja Luka	2,288	556	-	(96)	5,650
3. Kombank INVEST	-	105	(8)	-	288
TOTAL:	2,315	1,044	(8)	(590)	6,046

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss in the amount of RSD 7,961 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 acts.

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 30 Jun 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

	30 June 2016		31 December 2015	
	Gross	Nett	Gross	Nett
I. Overview of assets	435,802,258	391,590,872	411,139,949	373,696,686
Cash and assets at the central bank	62,001,833	62,001,833	63,523,715	63,523,715
Loans and receivables from banks and other financial institutions	26,886,566	26,487,270	17,243,760	16,844,000
Loans and receivables from customers	200,898,951	158,089,978	199,026,572	162,742,565
Financial assets	142,816,608	142,638,291	128,122,478	128,024,439
Other assets	3,198,300	2,373,499	3,223,424	2,561,967
II. Off-balance-sheet items	31,386,809	30,899,366	28,081,278	27,541,154
Payable guarantees	3,984,165	3,874,893	4,702,206	4,548,918
Performance bonds	6,665,914	6,566,917	6,503,652	6,392,930
Irrevocable commitments	20,338,377	20,338,377	16,303,173	16,303,173
Other	398,353	119,179	572,247	296,133
Total (I+II)	467,189,067	422,490,238	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

30.06.2016.

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Undue unimpaired	-	-	-	-	-	-	1,623,850	1,623,850	24,013,329
Due but unimpaired	-	-	-	-	-	-	147,386	147,386	2,473,942
Group impaired	38,094,564	18,599,957	6,662,968	6,430,289	7,043,867	76,831,645	88,622,342	165,453,987	399,296
Individually impaired	1,089,774	-	86,115	-	716,492	1,892,381	31,781,347	33,673,728	-
Total	39,184,338	18,599,957	6,749,083	6,430,289	7,760,358	78,724,026	122,174,925	200,898,951	26,886,566
Impairment	922,946	1,049,012	433,218	736,940	1,343,784	4,485,900	38,323,072	42,808,972	399,296
Group impairment	646,518	1,049,012	418,269	736,940	1,155,805	4,006,544	17,955,119	21,961,663	399,296
Individual impairment	276,428	-	14,949	-	187,979	479,357	20,367,953	20,847,309	-
Net carrying value	38,261,391	17,550,946	6,315,865	5,693,349	6,416,574	74,238,125	83,851,853	158,089,978	26,487,270

in RSD thousand

31.12.2015.

	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	32,229,956	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 from the Republic of Serbia).

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

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	in RSD thousand 30 June 2016 Receivables from banks
Low (IR 1 and 2)	-	-	-	-	-	-	1,623,850	1,623,850	24,013,329
Increased (IR 3)	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	1,623,850	1,623,850	24,013,329

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	in RSD thousand 31 December 2015 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

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	in RSD thousand 30 June 2016 Receivables from banks
Default of up to 30 days	-	-	-	-	-	-	-	-	2,473,942
Between 31 and 90 days	-	-	-	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-	147,386	147,386	-
Total	-	-	-	-	-	-	147,386	147,386	2,473,942

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	in RSD thousand 31 December 2015 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 policies 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 second quarter 2016, 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 0.7 as the average liquidity ratio for all working days in a month.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	30.06.2016.	31.12.2015.	30.06.2016.	31.12.2015.
Average for the period	2.86	2.73	2.47	2.51
Maximum for the period	3.17	3.11	2.74	2.82
Minimum for the period	3.62	3.97	3.16	3.62
	<u>2.42</u>	<u>1.85</u>	<u>2.21</u>	<u>1.65</u>

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.06.2016.	31.12.2015.
Cumulative GAP up to 3	Max (10%)	5.43%	5.54%
	Max (20%)	<u>7.66%</u>	<u>6.84%</u>

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:

	<u>Лимити</u>	<u>30.06.2016.</u>	<u>31.12.2015.</u>
Relative GAP	Max 15%	2,04%	1,38%
Mismatch ratio	0.75 – 1.25	1,02	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:

	<u>30.06.2016.</u>	<u>31.12.2015.</u>
As at	5.03%	5.23%
Average for the period	4,88%	8,68%
Maximum for the period	5.03%	10.70%
Minimum for the period	4,72%	5,23%
Limit	<u>20%</u>	<u>20%</u>

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	<u>30.06.2016.</u>	<u>31.12.2015</u>
Total currency risk balance	1.250.442	3.752.636
Currency risk ratio	3,18%	9,76%
Legally-defined limit	<u>20%</u>	<u>20%</u>

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.

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

	<u>30.06.2016.</u>	<u>31.12.2015.</u>
Core capital	40.657.196	40.078.298
Supplementary capital	4.199.833	3.909.144
Deductible items	<u>(5.480.888)</u>	<u>(5.555.355)</u>
Capital	39.376.142	38.432.087
Credit risk-weighted assets	147.917.410	144.531.657
Operational risk exposure	21.710.322	20.679.815
Foreign currency risk exposure	<u>1.250.541</u>	<u>4.072.901</u>
Capital adequacy ratio (minimum 12%)	23.04%	22.70%

In the second quarter of the year 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

On 26.07.2016 a regular General Meeting of Shareholders was held and a decision was adopted whereby Ernst&Young was selected as the Bank's external auditor.

During July 2016 we agreed with the foreign creditor EFSE to make an early repayment of 3 credit lines which the Bank had drawn from the creditor in the total amount of EUR 34,007 thousand and it needs to be paid in September 2016.

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

Currencies	Official NBS rate	
	2016.	2015.
USD	111.0714	111.2468
EUR	123.3115	121.6261
CHF	113.2857	112.5230

In Belgrade,
On 29.07.2016.

Persons responsible for drafting the
financial statements





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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2016 to 30/06/2016 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
Director of the
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Savo Petrović
Executive Director for
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